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PAPERS AND PROCEEDINGS

of the

Fifty-seventh Annual Meeting

OF THE

AMERICAN ECONOMIC ASSOCIATION

Washington, D.C., February, 1945

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AMERICAN ECONOMIC ASSOCIATION

Organized at Saratoga, New York, September 9, 1885

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* Deceased.

General
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PROGRAM OF THE FIFTY-SEVENTH ANNUAL MEETING

At the eleventh hour the meetings, scheduled to be held in Washington, D.C., February 1-4, were canceled at the request of the ODT. Thus the papers which would otherwise have been delivered and the discussions which would have taken place did not fully mature in the sense that they were not subjected to the test of public scrutiny. We have, however, made every effort to capture and preserve all papers prepared for the program. As might have been expected, some papers in the process of completion were stillborn upon the announcement of the cancellation of the meetings and the scheduled appearance of the *Proceedings* made impossible, in many instances, the circulation of papers to participants who were invited to discuss them. As a result, some sessions are not fully rounded, and others that might have been more closely knit together, if an interchange of ideas at the meetings had been possible, may seem to lack the degree of integration which had been planned for them. Again, since a number of meetings, especially some of the joint meetings with the other associations, were planned as panel sessions to be conducted in an *ex tempore* manner, no reports were produced for the *Proceedings*. The record of this year's program is therefore incomplete and does not fully reflect the vision and intelligent planning of its organizers. That the results are as satisfactory as the difficult and trying circumstances made possible is due to the splendid co-operation of those who carried through with their assignments in organizing sessions and in preparing papers, and in a very large part to the stimulating and effective leadership of President Joseph S. Davis.

The program was planned as a joint product of the A.E.A., A.P.S.A., and A.S.P.A. Attention was focused mainly on selected problems of the postwar world, with some reference to the war-peace transition and with special emphasis on policy issues. The joint program is published below, but only the papers prepared for the sessions initiated by President Joseph S. Davis, and a few others of particular interest to economists, are published in this volume. Other papers will appear in the *American Political Science Review* or elsewhere. Subjects treated in this number include main papers and discussion papers on Consumption Economics, Expanding Civilian Production and Employment After the War, Natural Resources and International Policy, Interdepartmental Courses in the Social Sciences, Price Control and Rationing in the War-Peace Transition, Organized Labor and the Public Interest, Aviation in the Postwar World, International Monetary and Credit Arrangements, Agricultural Price Supports and Their Consequences, The Political Economy of International Cartels, Fiscal Problems of Transition and Peace, Problems of Regionalism in the United States, Food and Agriculture: Outlook and Policy, and The Function of Government in the Postwar American Economy.

Note: Numbered sessions are the source of papers published by the American Economic Association.

Thursday, February 1, 1945

10:00 A.M. *Executive Committee Meeting, American Economic Association*

8:00 P.M. *Social Scientists and the Postwar World*
Chairman: Joseph S. Davis, Stanford University
Papers: Charles E. Merriam, University of Chicago; Joseph H. Willits, Rockefeller Foundation

Friday, February 2, 1945

9:30 A.M. *Social Scientists in the Public Service*
Chairman: Kenneth O. Warner, Foreign Economic Administration
Discussion: Morris A. Copeland, War Production Board; John J. Corson, Social Security Board; Lauchlin Currie, Foreign Economic Administration; Frederick M. Davenport, Council for Personnel Administration; Philip M. Hauser, Bureau of the Census; Lloyd M. Short, University of Minnesota

Latin America's Place in the Postwar World
Chairman: Russell H. Fitzgibbon, Office of the Co-ordinator of Inter-American Affairs
Papers: Arthur P. Whitaker, University of Pennsylvania; Henry Reining, Jr., National Institute of Public Affairs; Frank A. Waring, Bureau of Foreign and Domestic Commerce

Discussion: Louis Brownlow, Public Administration Clearing House; John M. Cabot, Department of State; Dana G. Munro, Princeton University; Sherman S. Sheppard, Bureau of the Budget; Frank Tannenbaum, Columbia University; George Wythe, Bureau of Foreign and Domestic Commerce

Japanese Government in the Postwar Period
Chairman: Harold M. Vinacke, Office of War Information
Discussion: Kenneth Colegrove, Northwestern University; Eugene Dooman, Department of State; Charles Burton Fahs, Office of Strategic Services; William C. Johnstone, George Washington University; Lieutenant Commander W. M. McGovern, Joint Chiefs of Staff; Sir George Sansom, British Embassy; Lieutenant Charles N. Spinks, Navy Department

1. *Consumption Economics*
Chairman: Edwin G. Nourse, Brookings Institution
Papers: Kenneth E. Boulding, Iowa State College; James P. Cavin, Bureau of Agricultural Economics; James J. O'Leary, Wesleyan University
Discussion: R. G. D. Allen,[1] Combined Production and Resources Board; S. M. Livingston, Department of Commerce; J. J. Spengler, Duke University; Edwin G. Nourse, Brookings Institution

Functional Representation in Policy Formation and Administration
Chairman: Arthur W. Macmahon, Department of State
Discussion: George W. Brooks, War Production Board; Samuel Jacobs, Office of Price Administration; V. O. Key, Jr., Bureau of the Budget; Avery Leiserson, Bureau of the Budget; Harvey C. Mansfield, Office of Price Administration; Carl Henry Monsees, War Production Board; William Newman, Petroleum Administration for War

12:30 P.M. *Luncheon Meeting*
Chairman: Luther H. Gulick, President, American Society for Public Administration
Paper: Donald M. Nelson, Personal Representative of the President

2:30 P.M. 2. *Expanding Civilian Production and Employment After the War*
Chairman: E. A. Goldenweiser, Board of Governors, Federal Reserve System
Papers: Arthur R. Upgren, Federal Reserve Bank of Minneapolis; Paul G. Hoffman, Committee for Economic Development and Studebaker Corporation; Lincoln Gordon,[1] War Production Board
Discussion: Milton Gilbert, Bureau of Foreign and Domestic Commerce; John H. G. Pierson, Bureau of Labor Statistics; Donald H. Wallace,[1] Office of Price Administration

3. *Natural Resources and International Policy*
Chairman: Alexander Loveday, League of Nations
Papers: Harold F. Williamson, Yale University; E. I. Kotok, U. S. Forest Service; Egon Glesinger, Comité Internationale du Bois
Discussion: S. v. Ciriacy-Wantrup, University of California; John Ise, University of Kansas; Eugene Staley, Foreign Service Educational Foundation

The Reorganization of Congress
Chairman: Clarence A. Berdahl, University of Illinois
Discussion: Phillips Bradley, Queens College; Everett M. Dirksen, Member, U. S. House of Representatives; George B. Galloway, Commission on the Organization of Congress; Ernest S. Griffith, Library of Congress; Robert K. Lamb, United Steel Workers of America; Francis Maloney, Member, U. S. Senate; A. S. Mike Monroney, Member, U. S. House of Representatives; Lucius Wilmerding, Jr., United Nations Relief and Rehabilitation Administration

German Government in the Postwar Period
Chairman: Roger H. Wells, Bryn Mawr College
Papers: Maxine Sweezy, American Association of University Women; John Brown Mason, Foreign Economic Administration; Fritz Morstein Marx, Bureau of the Budget; James K. Pollock, University of Michigan

[1] No manuscript received.

4. *Interdepartmental Courses in the Social Sciences*
   Chairman: A. B. Wolfe, Ohio State University
   Papers: Edward A. Shils,[1] University of Chicago; Louis M. Hacker, Columbia University
   Discussion: Morris A. Copeland, War Production Board; Benjamin F. Wright,[1] Harvard University

Impending Adjustment Problems in Civilian Agency Operations
   Chairman: Donald C. Stone, Bureau of the Budget
   Discussion: Arthur J. Altmeyer, Social Security Board; Thomas C. Blaisdell, Jr., Office of War Mobilization and Reconversion; W. A. Jump, Department of Agriculture; John Ross, Department of State

5:00 P.M. *Business Meeting, American Economic Association*

8:00 P.M. *International Organization for the Maintenance of Peace*
   Chairman: Grayson L. Kirk, Columbia University
   Papers: Frederick S. Dunn, Yale University; Major George Fielding Eliot, *New York Herald-Tribune;* Philip C. Jessup, Columbia University
   Discussion: Harold H. Sprout, Princeton University

5. *Price Control and Rationing in the War-Peace Transition*
   Chairman: Donald H. Wallace, Office of Price Administration
   Papers: J. M. Clark, Columbia University; Merle Fainsod, Harvard University; Clair Wilcox, Swarthmore College
   Discussion: Harvey Mansfield,[1] Office of Price Administration; Elmer Staats, Bureau of the Budget; Paul M. O'Leary, Cornell University

6. *Organized Labor and the Public Interest*
   Chairman: Wayne L. Morse, Member, U. S. Senate
   Papers: Sumner H. Slichter, Harvard University; Robert M. C. Littler, San Francisco
   Discussion: Fritz Machlup,[1] Office of Alien Property Custodian; James J. Robbins, American University; George W. Taylor,[1] National Labor Relations Board

7. *Aviation in the Postwar World*
   Chairman: Claude E. Puffer, University of Buffalo
   Papers: Lewis C. Sorrell,[1] Air Transport Association of America; Kent T. Healy, Yale University; Quincy Wright, University of Chicago
   Discussion: Paul T. David, Bureau of the Budget; Escott Reid,[1] Canadian Embassy

The 1944 Election
   Chairman: Harold D. Lasswell, Library of Congress
   Papers: Louis H. Bean, Bureau of the Budget; Harold F. Gosnell, Bureau of the Budget; Charles S. Hyneman, Federal Communications Commission; Ralph D. Casey, University of Minnesota
   Discussion: J. William Fulbright, Member, U. S. Senate

Saturday, February 3, 1945

9:30 A.M. *The Human Problem in the War-Peace Transition*
   Chairman: Geoffrey May, Bureau of the Budget
   Papers: Brigadier General Frank T. Hines, Administrator of Veterans Affairs and of the Retraining and Re-employment Administration; William Haber, Office of War Mobilization and Reconversion; Arthur S. Flemming, U. S. Civil Service Commission; Robert K. Lamb, United Steel Workers of America; Mrs. Eugene Meyer, *The Washington Post*

8. *International Monetary and Credit Arrangements*
   Chairman: Robert B. Warren, Institute for Advanced Study
   Papers: Imrie de Vegh, New York City; William Fellner, University of California; Walter Gardner, Board of Governors, Federal Reserve System
   Discussion: Alice Bourneuf, Board of Governors, Federal Reserve System; Ragnar Nurkse, League of Nations; Henry C. Simons, University of Chicago

9. *Agricultural Price Supports and Their Consequences*
   Chairman: Edward S. Mason, Office of Strategic Services

[1] No manuscript received.

Paper: E. J. Working, University of Illinois
Discussion: John D. Black, Harvard University; Karl Brandt, Food Research Institute; H. B. Arthur, Swift and Company; O. V. Wells, Bureau of Agricultural Economics

Institutional Reconstruction in France
Chairman: Walter R. Sharp, United Nations Interim Commission on Food and Agriculture
Discussion: Raoul Aglion, French Embassy; Shepard B. Clough, Social Science Research Council; Henry W. Ehrmann, Washington, D.C.; Leo Gershoy, Office of War Information; Robert K. Gooch, Department of State; Henry B. Hill, Office of Strategic Services; Louis Marlio, Brookings Institution; Louis Rosenstock-Franck, United Nations Relief and Rehabilitation Administration; Christian Valensi, French Embassy

Political Science Research in the Postwar Period
Chairman: Arthur N. Holcombe, War Production Board
Papers: Ernest S. Griffith, Library of Congress; William Anderson, University of Minnesota; John M. Gaus, University of Wisconsin; Pendleton Herring, Harvard University

Urban Redevelopment
Chairman: Herbert Emmerich, Public Administration Clearing House
Discussion: Charles Ascher, National Housing Agency; Walter Blucher, American Society of Planning Officials; Harold Buttenheim, *The American City;* Miles L. Colean, Consultant in Residential Construction and Finance; Major General U. S. Grant, III, National Capital Park and Planning Commission; Alvin H. Hansen, Board of Governors, Federal Reserve System; Reginald R. Isaacs, National Housing Agency; Robert Mitchell, Philadelphia City Planning Commission; Paul Oppermann, Federal Housing Administration; Warren Jay Vinton, Federal Public Housing Authority; Kenneth Vinsel, Louisville Area Development Association; Coleman Woodbury, National Housing Agency

12:30 P.M. *Luncheon Meeting*
Chairman: Leonard D. White, President, American Political Science Association

2:30 P.M. 10. *The Political Economy of International Cartels*
Chairman: Myron W. Watkins, Twentieth Century Fund
Papers: Theodore J. Kreps, Department of Justice; Robert A. Brady, University of California
Discussion: Ervin Hexner, University of North Carolina; Edward S. Mason,[1] Office of Strategic Services; Howard J. McMurray,[1] Milwaukee, Wisconsin; Walter S. Tower,[1] American Iron and Steel Institute; Robert M. Weidenhammer, Department of Commerce

Citizen Attitudes Toward Politicians and Administrative Officials
(Joint session with National Council for the Social Studies)
Chairman: Wilbur F. Murra, Civic Education Service
Discussion: Ethan P. Allen, Bureau of the Budget; Mrs. Mary L. Ambrosi, Powell Junior High School, Washington, D.C.; John B. Blandford, Jr., National Housing Agency; Henry H. Field, University of Denver; Walter H. C. Laves, Bureau of the Budget; James Mendenhall, Office of Price Administration; Jerry Voorhis, Member, U. S. House of Representatives

11. *Fiscal Problems of Transition and Peace*
Chairman: Lawrence H. Seltzer, Wayne University
Papers: W. L. Crum, Harvard University; Albert G. Hart, Committe on Economic Development; Richard V. Gilbert,[1] Office of Price Ad ministration
Discussion: Roy Blough,[1] Treasury Department; Gerhard Colm, Burea of the Budget; Julius Hirsch,[1] New York City; Arthur R. Upgre Federal Reserve Bank of Minneapolis

12. *Problems of Regionalism in the United States*
Chairman: Robert D. Calkins, Columbia University
Papers: John V. Van Sickle, Vanderbilt University; Leon Wolcott, Fo

[1] No manuscript received.

eign Economic Administration; Walter M. Kollmorgan, Department of Agriculture

Discussion: Miriam E. Oatman,[1] Foreign Economic Administration; John F. Miller,[1] National Planning Association; J. J. Spengler,[1] Duke University

13. *Food and Agriculture: Outlook and Policy*

Chairman: John D. Black, Harvard University

Papers: H. R. Tolley, Bureau of Agricultural Economics; J. B. Canning, War Food Administration

Discussion: Frank Munk,[1] United Nations Relief and Rehabilitation Administration; Harold B. Rowe,[1] Foreign Economic Administration; P. Lamartine Yates, British Embassy

Presidential Addresses

Chairman: Robert E. Cushman, Cornell University

Papers: Leonard D. White, American Political Science Association; Luther H. Gulick, American Society for Public Administration; Joseph S. Davis,[2] American Economic Association

Sunday, February 4, 1945

10:00 A.M. *The Soviet Union in the Postwar World*

Chairman: Mortimer Graves, American Council of Learned Societies

Papers: Ernest C. Ropes, Department of Commerce; Oscar Lange, University of Chicago; John N. Hazard, Foreign Economic Administration

Discussion: W. Chapin Huntington, American Council of Learned Societies; Lieutenant Colonel William McChesney Martin, President's Soviet Protocol Committee; Brownson Price, Office of War Information; Charles Prince, Federal Communications Commission

The Use of Sampling Surveys in Developing and Administering Government Programs

Chairman: A. C. C. Hill, Jr., War Production Board

Discussion: Lieutenant Colonel Charles Dolard, Army Service Forces; Theodore R. Gamble, Treasury Department; Philip Hauser, Bureau of the Census; John B. Hutson, Office of War Mobilization and Reconversion; Charles E. Noyes, War Production Board; Saul B. Sells, Office of Price Administration

The Supreme Court During and After the War

Chairman: Robert K. Carr, Dartmouth College

Papers: C. Herman Pritchett, University of Chicago; Arthur A. Ballantine, New York City; Carl B. Swisher, Johns Hopkins University

2:00 P.M. 14. *The Function of Government in the Postwar American Economy*

Chairman: James Washington Bell, Northwestern University

Discussion: Corwin D. Edwards, Northwestern University; Simeon E. Leland, University of Chicago; Leverett S. Lyon, Chicago Association of Commerce; Henry C. Simons, University of Chicago; Frank H. Knight, University of Chicago

The Role of the States in the Postwar Period

Chairman: Patterson H. French, Office of Price Administration

Discussion: Frank Bane, Council of State Governments; Lieutenant Commander Frank W. Herring, Navy Department; George A. Shipman, Bureau of the Budget; Major John O. Walker, Council on Intergovernmental Relations

Postwar Control of International Communication of Information and Ideas

Chairman: Robert D. Leigh, Commission on the Freedom of the Press

Papers: Francis C. de Wolf, Department of State; Llewellyn White, Commission on the Freedom of the Press; Nelson Poynter, St. Petersburg, Florida, *Times;* Haldore Hanson, Department of State

Organization and Co-ordination of International Social and Economic Agencies

Chairman: Benjamin Gerig, Department of State

Discussion: J. William Fullbright, Member, U. S. Senate; Leland Goodrich, Brown University; Alexander Loveday, League of Nations; Leroy Stinebower, Department of State

[1] No manuscript received.

[2] Published in the March, 1945, number of the *American Economic Review.*

THE purpose of the American Economic Association, according to its charter, is the encouragement of economic research, the issue of publications on economic subjects, and the encouragement of perfect freedom of economic discussion. The Association as such takes no partisan attitude, nor does it commit its members to any position on practical economic questions. It is the organ of no party, sect, or institution. Persons of all shades of economic opinion are found among its members, and widely different issues are given a hearing in its annual meetings and through its publications. The Association, therefore, assumes no responsibility for the opinions expressed by those who participate in its meetings.

JAMES WASHINGTON BELL
Secretary

The American Economic Review

VOLUME XXXV MAY, 1945 NUMBER TWO

CONSUMPTION ECONOMICS

THE CONSUMPTION CONCEPT IN ECONOMIC THEORY

By KENNETH E. BOULDING
Iowa State College

Ever since Adam Smith's celebrated dictum that "consumption is the sole end and purpose of production,"[1] the consumption concept has played a significant role in economic theory. It gave its name to one of the four provinces of the subject, in the days when the subject had provinces. It gave a title to a Book in Marshall's principles, and constituted the apparent ground from which the marginal utility school took its theoretical flight. Under the stimulus of the emancipation of women and the development of faculties of Home Economics, Consumption Economics almost threatens to become a separate science. And finally, a concept labeled "consumption" plays a vital role in the Keynesian theory of the macroeconomic process.

One would suppose that with so long a history the meaning of the term would be moderately clear. Unfortunately this is not so. It is only a slight exaggeration to say that the classical economists, up to and including Marshall, had a fairly clear concept of consumption but no adequate theory of how consumption fitted into the whole economic process. In spite of Adam Smith, Say, and Malthus, in whose writings there is at least the germ of a theory of consumption, the influence of Ricardo switched the line of development of economic thought for over a century towards production, distribution, and exchange. Marshall, for instance, having defined consumption fairly accurately, immediately leaves the subject and devotes the rest of his Book III to a discussion of the related, but by no means identical, topic of Demand. It was not until the development of the Keynesian system that a consumption concept took its place in the theory of the whole economic process. Unfortunately, however, while the Keynesians had a fairly good *theory* of consumption, they worked with a very inadequate and confused *concept*, and to this fact must be attributed many of the quite unnecessary difficulties and confusions of Keynesian economics.

Up to the time of Marshall the meaning of the word "consumption" was fairly clear. It meant, what it literally means, the destruction of

[1] *Wealth of Nations*, Book IV, Ch. 8 (Vol. II, Cannan Ed.), p. 159.

commodities—i.e., of valuable things—in the way in which they were intended to be destroyed. Not all destruction is consumption; the destruction of a loaf of bread by digestion, or of a suit of clothes by abrasion, is presumably somewhat different in character from the destruction of a building by fire, though even in this case, taking the society as a whole, it would be reasonable to call every *insurable* destruction consumption, as being part of that destruction which is necessarily incidental to the carrying on of life. As above defined there is, of course, no particular virtue in consumption. It is, unfortunately, a necessary incident in the business of living. We cannot eat without destroying food; we cannot walk without destroying shoes; we cannot drive without destroying gasoline, tires, and cars; and so on. Were we possessed of unbreakable china, widow's cruses, waters of life, undying fires, immortal garments and inexhaustible energy we would presumably be better off, economically, though what we would do with all these riches is, of course, another question. Any discovery which renders consumption less necessary to the pursuit of living is as much an economic gain as a discovery which improves our skills of production. Production—by which we mean the exact opposite of consumption, namely, the creation of valuable things—is only necessary in order to replace the stock pile into which consumption continually gnaws.

Production and consumption are related through what I have called the "Bathtub Theorem"—not so much because bathtubs, as Archimedes discovered, and as I can testify myself, are admirable places for discovering theorems, as because the bathtub is itself a simple example of its operation. The theorem is that the rate of accumulation is equal to the rate of production minus the rate of consumption. In the economic bathtub the total stock pile of all valuable things represents the water in the tub. Production is the flow from the faucet; consumption is the flow down the drain. The rate of accumulation is clearly equal to the difference between these two flows. In this simple theorem lies the key to the understanding of much that is puzzling about economic life. It is the key, for instance, to the problem of postwar reconstruction in the devastated areas. War is the great consumer; during war destruction and consumption by far exceed production, for a large part of productive resources are diverted into tasks of destruction. At the end of a war, therefore, the world's stock pile is likely to be very much depleted, and the main task of the ensuing years is that of rebuilding the stock pile. This can only be done by widening the gap between production and consumption, or, in the case of a single country or region, by obtaining a surplus of imports over exports. The struggle of depleted countries to diminish their internal consumption and to increase their net imports was almost the whole drama of reconstruc-

tion after the first World War, and probably will be so after the second. It is a struggle that in extreme cases almost inevitably leads to inflation, which, as long as it is not anticipated, contributes materially to the restriction of internal consumption and to the finance of imports.

The Bathtub theorem likewise is the first step in the understanding of the long-run crises of capitalism—the deflationary pressures of a mature society and its intractable unemployment. This is what Mr. Robertson has so aptly called the "worm" at the heart of capitalism—the dreadful shadow of the stationary state. It is clear that accumulation cannot proceed for ever. The day must come, in the course of economic development, when income can grow but capital cannot. In the case of raw materials we reach that stage very quickly. It is all too easy to accumulate two years' supply of wheat in the warehouses, and there is practically no sense in accumulating beyond that point. Even in the case of fixed capital the productive powers of modern society are so great that it does not take us long, even after a great and destructive war, to accumulate fixed capital to the point where the advantage of accumulating more scarcely outweighs the risks. That is to say, as the stock pile accumulates the *rate* of accumulation must eventually decline, and decline to zero. There is only one way of doing this, and that is by reducing the gap between production and consumption. This can be done in two ways: either by consumption rising, or by production falling. If consumption does not rise in these circumstances, then production must fall. The mechanism by which a decline in production is achieved is through deflation, which makes enterprise unprofitable and thereby creates unemployment. In a situation where the owners of the stock pile are unwilling to increase their holdings beyond a certain rate, in the absence of an increase in consumption, employment and production must decline until the difference between production and consumption is equal to the rate of accumulation which capitalists are willing to allow. This, I take it, in a nutshell is the main Keynesian contribution to economic thought, and a very important contribution it is.

Unfortunately, however, the Keynesians have confused their own arguments and other people's minds almost beyond reason by defining consumption as "consumer's expenditure." This definition has led them into all sorts of difficulties, especially in the concepts of income, saving, and investment. Similar confusion has resulted from their definition of Investment in terms of net business expenditure. The receipt or the spending of money is in itself merely an act of exchange; i.e., an asset transfer. It results in the first instance only in a redistribution of assets among the individuals of a society, and while it may have indirect effects on income and consumption, it does not constitute

either income or consumption. Thus if I buy a loaf of bread the transaction itself consists only in a redistribution of the liquid and nonliquid assets of society. I have decreased and the baker has increased liquid holdings by eleven cents, and I have increased and the baker has decreased nonliquid assets to the extent of one loaf of bread valued at eleven cents. The transaction itself is not consumption: consumption does not take place until I eat the loaf of bread, for then my assets actually decline by a value of eleven cents. Similarily the transaction is not income to the baker, for it does not add to the total value of his assets, but merely exchanges an illiquid asset for a liquid asset of the same value. The baker's act of producing income took place earlier, when he made the loaf and so added something to his assets. In like manner the receipt of a pay check is not income, but merely the exchange of one form of assets (a claim on the employer), for another form of assets (a claim on society in general). Income accrues as the claim on the employer is built up; it is not created merely at the moment when this claim is exchanged for money at the pay clerk's window.

The confusion about consumption and income is very apparent in the "savings-investment" controversy. Everyone agrees that saving means the difference between income and consumption. The difficulties arise over the definition of income and of consumption. If income is defined as the value of production then in value terms, saving, both for an individual and for society as a whole, is equal to the difference between the value of production and the value of consumption. But this is the same thing as the value of the increment of the total stock; i.e., the value-rate of accumulation, which presumably is what is meant by investment.[2] The classical definition of consumption and income leads immediately, therefore, to the identity of saving and investment, both consisting in the net growth of assets. This identity in itself, of course, is not particularly useful, as the important question is not so much the rate of accumulation as the level of production and consumption at which a given rate of accumulation is established, but it serves to dispel certain possible illusions; e.g., that an individual can consume a smaller value than he produces, or save, without this resulting in any increase in the value of the stock pile; i.e., in investment.

The relationships between money receipts and outlays, production and consumption are not difficult to clarify. Consider first an individual economic unit. Let T_0 be the total value of the assets of the individual at the beginning of the year, equal to A_0 worth of real assets and M_0 of money. Suppose that during the year the individual produces assets valued at D and consumes assets valued at C. Then the total assets at

[2] Difficulties due to changes in prices are treated later.

the end of the year $T_1 = T_o + D–C$. That is to say, the change in total assets depends only on production and consumption, and is equal to the difference between them, and does not depend on the extent of money transfers. The change in real assets or in money will, however, depend on the amount of money transfers. Let Y be the money received and X the money expended during the year. If M_1 is the money held at the end of the year, then $M_1 = M_o + Y - X$. Real assets held at the end of the year, $A_1 = A_o + D - C - Y + X$.[3]

Consider now a society with two organisms, I and II. Then with the symbols having the same significance as in the previous paragraph, but identified as pertaining to organism I by the superscript ′ and as pertaining to organism II by the superscript ″ we have:

for organism I

$$T_1' = T_o^1 + D' - C' \qquad (1a)$$
$$M_1' = M_o' + Y' - X' \qquad (1b)$$
$$A_1' = A_o' + D' - C' - Y' + X' \qquad (1c)$$

for organism II

$$T_1'' = T_0'' + D'' - C'' \qquad (2a)$$
$$M_1'' = M_0'' + Y'' - X'' \qquad (2b)$$
$$A_1'' = A_o'' + D'' - C'' - Y'' + X'' \qquad (2c)$$

If the society consists of only two organisms, the receipts of one are the same thing as the outlays of the other. That is,

$$X' = Y'' \qquad (3a)$$
$$X'' = Y' \qquad (3b)$$

Adding equations (1a) and (2a), (1b) and (2b), (1c) and (2c), we have, if the symbols without superscripts represent the total quantity for the whole society,

$$T_1 = T_1' + T_1'' = T_o + D - C \qquad (4a)$$
$$M_1 = M_1' + M_1'' = M_o \qquad (4b)$$
$$A_1 = A_1' + A_1'' = A_o + D - C \qquad (4c)$$

[3] We know that

$$T_1 = A_o + M_o + D - C \qquad (1)$$
and $$M_1 = M_o + Y - X; \qquad (2)$$
from which it follows that the real assets at the end of the year, $A_1 = T_1 - M_1$; but
$$T_1 - M_1 = A_1 = A_o + D - C - Y + X \qquad (3)$$
obtained by subtracting the right-hand member of equation (2) from the right-hand member of equation (1).

If we rewrite (3) as
$$A_1 = A_o + D - C - (Y - X), \qquad (3.1)$$
it is clear that the real assets at the end of year 1 equal the money value of the real assets of the beginning of the year plus the money value of production minus the money value of consumption, *and minus the money savings*, for in order to get these money savings the savers had to give up in exchange real assets of the same money value as the savings.

Equations (4) show that if the quantity of money in the whole society is constant, as we have assumed, not only is the increase in total assets equal to the difference between production and consumption, but the increase in real assets is likewise equal to the difference between production and consumption, and does not depend directly upon the extent of monetary transfers. These propositions are clearly true no matter how many units comprise the society, as the algebraic sum of the money transfers is zero.

It is interesting to contrast these concepts of "real investment" (increase in assets) and "real saving" (difference between production and consumption) with the monetary flows concept used by the Keynesians. If we suppose that in our example organism I represents "individual consumers" and organism II represents "businesses," then X'—the money outlay of consumers—is presumably what the Keynesians call "consumption" and Y', the money receipts of consumers, in what the Keynesians call Income. The Keynesian Saving, then, is the difference between Income and Consumption, or $Y' - X'$. Investment, in the Keynesian sense, presumably means the net outlays of business, or $X'' - Y''$. Then from equations (3) it follows immediately that the Keynesian Saving equals the Keynesian Investment. It also follows that the total Income, Y', is equal to Consumption plus Investment, or $X' + X'' - Y''$. These relationships are, of course, formally valid. One wonders, however, whether it is altogether justifiable to give the name Investment and Saving quantities which have nothing directly to do with the creation of real assets, however great their indirect effect may be.

The Keynesian definition of Consumption inevitably leads to a concept of Saving which equates it with the increase in the cash balance of consumers, and a concept of Investment which equates it with the decrease in the cash balance of businesses. It is obvious that if the operations of government are left out of account, and if the quantity of money is unchanged, that these must be equal, but this equality has very little to do with the equality of "real" saving and "real" investment. Indeed it would be perfectly possible for businesses to be gaining and consumers to be losing cash—i.e., for dissaving and disinvestment to be taking place in the Keynesian sense, at the same time that real saving and real investment were strongly positive.

In fact, the whole dichotomy between "consumers" and "businesses" is not particularly relevant to the Keynesian concepts of Saving and Investment. The Keynesian Saving might better be called the net budget surplus of consumers, and the Keynesian Investment the net budget deficit of business. Now for the economy as a whole, if there

is no creation or destruction of money, over any period of time the algebraic sum of the budget surpluses (+) and deficits (−) of all economic organisms is zero. The budget surpluses represent increases in the cash balances of the organism enjoying them, which increases must be exactly equal to the budget deficits, or the decrease in cash balances, of the other organisms. If now we divide the organisms of the economy into two arbitrary groups, if the sum of the budget surpluses of one group is positive, that of the other group must be negative and equal in amount. The equality of Savings and Investment in the Keynesian sense, therefore, applies to any arbitrary division of the economy, and has nothing particularly to do with the distinction between "consumers" and "businesses," although of course it applies to this division as well as to any other.

Similarly the Keynesian description of the mechanism by which a net desire to "save"—i.e., to accumulate money—results in a decline in Income, and a net desire to "invest"—i.e., to decumulate money—results in a rise in Income has nothing *directly* to do with "real" saving or investment, nor with the division of the economy into "consumers" and "businesses." The way the argument usually runs is as follows: suppose that businesses plan to "invest" more than consumers plan to "save." Businesses, that is to say, decumulate money by expanding their money expenditures. These money expenditures are the receipts of consumers and hence consumers find themselves, willy nilly, accumulating the money that businesses are decumulating through a rise in their investments. The realized Saving of consumers is equal to the Investment of business. If, however, consumers are obdurate in not wanting to "save"—i.e., to accumulate money—they will react to their increased receipts by increasing their expenditures. The expenditures of consumers, however, are the receipts of business, and business now finds its receipts expanding and its investment declining to the amount of consumers' "savings." If business remains obdurate in its plans it expands its expenditures still more, which expands consumers' receipts, which expands consumers expenditures, which expands business receipts, and receipts and expenditures rise until somebody gets exhausted and either consumers become willing to accept the money which business is set on disgorging or until business accepts the money that consumers are intent on disgorging, and the sum of the planned budget surpluses is equal to zero. A similar process in the reverse direction, with receipts and expenditures declining, will take place if the sum of planned budget surpluses is positive; i.e., if people as a whole are trying to accumulate money.

It is evident that this process represents something real and important in economic life. It is, in fact, only an old friend in modern dress—

namely, a description of what happens when there is a decrease or an increase in the "demand for money"—or to put it in other words when there is an increase or a decrease in the velocity of circulation. It is also evident that the description of the process in terms of "con- [illegible]

[illegible] of the part played by consumers' capital in the business cycle, [illegible] in the case of large single items such as automobiles. Yet it would seem that the number of shirts in the drawer and of suits in the closet is a matter of very vital concern to the textile industry. It may be even that the age distribution of consumers' capital is of great importance in interpreting and in forecasting fluctuation in consumers' demand. It should not be too difficult to direct investigators towards these problems. Indeed, it would seem to be easier on the face of things to investigate consumers' capital, which after all can be observed on the spot than to investigate consumers' budgets, which, if my own is any criterion, contain large elements of surmise.

The other element in the economic process which has been neglected in consequence of the neglect of the real consumption concept is the

direct effect of consumption on production occasioned by the fact that the replacement of inventories[4] is an important motivation in production itself. The usual analysis of the relationship between consumption (by which is usually meant consumers' expenditures) and production

an increased quantity of goods is equivalent to their consumption. Production, then, must equal the sum of consumption and investment; we assume the purpose of production is to increase the total stock of goods by certain amount; this desired increment is what we mean by "planned" investment. Then production must replace the stock that has been consumed and must also add to the stock by an amount equal to the investment that people wish to make. Thus if consumers decide to hold 600 million shirts instead of 500 million, and if the consumption of shirts is 2,000 million a year, production must be equal to 2,100 million if the inventories of business are not to change. Or if

[4] The argument applies of course not only to inventories in the narrow sense but to the total stock of all real assets.

namely, a description of what happens when there is a decrease or an increase in the "demand for money"—or to put it in other words, when there is an increase or a decrease in the velocity of circulation. It is also evident that the description of the process in terms of "consumers" and "businesses" in quite arbitrary, and that any two groups—e.g., American and non-American, rural and urban, smokers and non-smokers—which divide the whole economy between them would do just about as well. Hence the Keynesian terms Saving and Investment really mean very little; indeed, it is perfectly possible, and indeed common, for "consumers" to be "investing" and for "businesses" to be "saving." If the terms "budget surplus" and "budget deficit" were used not only would much confusion of terminology be avoided, but also the intimate relation of the budget deficits and surpluses of private organisms to the budget deficits and surpluses of government would become clear, and the effect of governmental receipts and expenditures on private expenditures and receipts would become clearer.

The confusion between consumption and expenditure, income and receipts, "real" saving and investment and budget surpluses and deficits has had other unfortunate consequences. It seems to have led to a neglect of the concept of consumers' capital, both in theoretical and empirical studies. In all the many investigations of consumption there is hardly one that even interests itself in the problem of consumers' stocks. The main interest of the consumption economists, that is to say, is in consumers' expenditures and receipts, and the last thing they seem to be interested in is consumption. I know of no attempt to estimate the total value of consumers' capital; yet this total value is very considerable; it must be of the same order of magnitude as industrial capital, even if it does not amount to as much. Even more important, there has been little attempt to estimate *changes* in consumers' capital or the part played by consumers' capital in the business cycle, except in the case of large single items such as automobiles. Yet it would seem that the number of shirts in the drawer and of suits in the closet is a matter of very vital concern to the textile industry. It may be even that the age distribution of consumers' capital is of great importance in interpreting and in forecasting fluctuation in consumers' demand. It should not be too difficult to direct investigators towards these problems. Indeed, it would seem to be easier on the face of things to investigate consumers' capital, which after all can be observed on the spot than to investigate consumers' budgets, which, if my own is any criterion, contain large elements of surmise.

The other element in the economic process which has been neglected in consequence of the neglect of the real consumption concept is the

direct effect of consumption on production occasioned by the fact that the replacement of inventories[4] is an important motivation in production itself. The usual analysis of the relationship between consumption (by which is usually meant consumers' expenditures) and production is conducted in terms of a complicated chain of events operating through incomes, expenditures, profits, interest rates, prices, expectations, disappointments, windfalls, and the rest. The complex chain of inflation and deflation unquestionably operates. The focusing of attention on the complex chain, however, has led to the neglect of a much more simple and direct connection, resting on the assumption that production is stimulated by a decline in inventories and retarded by the growth of inventories. Then consumption operates on production directly by its effect on inventories. If we suppose as a first approximation that all prices are fixed by law and are not within the control of businessmen, and that the object of the economic policy of businesses and consumers is to maintain inventories intact, then the relationship between production and consumption would be a direct and equal proportionality. If the consumption, of shirts, say, increased, consumers would find their stocks depleted and would buy shirts from the retailer. This would deplete the stocks of the retailer, who would buy from the wholesaler, who in turn finding his stocks depleted would order from the manufacturer an amount just equal to cover the consumption of consumers. Similarly it is when the consumer finds his drawers and closets full that he stops buying; the retailer then finds his shelves bulging and he stops buying; the wholesaler finds his warehouses full and he stops ordering; and production shuts down.

We can now relax the assumption that inventories are simply replaced (which excludes investment or saving) and suppose that there is net accumulation on the part of both businesses and consumers. This has exactly the same effect as consumption; i.e., from the point of view of its effect on production, the development of a willingness to hold an increased quantity of goods is equivalent to their consumption. Production, then, must equal the sum of consumption and investment; we assume the purpose of production is to increase the total stock of goods by certain amount; this desired increment is what we mean by "planned" investment. Then production must replace the stock that has been consumed and must also add to the stock by an amount equal to the investment that people wish to make. Thus if consumers decide to hold 600 million shirts instead of 500 million, and if the consumption of shirts is 2,000 million a year, production must be equal to 2,100 million if the inventories of business are not to change. Or if

[4] The argument applies of course not only to inventories in the narrow sense but to the total stock of all real assets.

wholesalers decide to increase their inventories by 100 million in the above case orders for shirts and therefore production will amount to 2,200 million.

If now we relax the assumption that prices are constant, the relationships between consumption, investment, production, and budgets become much more complicated, and we cannot hope to describe them in a short paper. The equations 1-4 assume that there is no change in prices from one period to the next. If there is an increase in prices, then the value of real assets can rise not only because of the increase in the physical quantity of assets, but because each unit has a higher money value than before. Let a_0, a_1, be the physical quantity of assets at times 0 and 1. Let d be the physical production, c the physical consumption—assuming that these can be measured in some homogeneous units. Then we have the "bathtub theorem,"

$$a_1 = a_0 + d - c \qquad (5)$$

If the same price p_0 prevails in both periods, we have $A_1 = p_0a_1$, $A_0 = p_0a_0$, $D = p_0d$, $C = p_0c$, and multiplying through equation (5) by p_0 we obtain immediately equation (4). If, however, there is a rise in prices to p_1 on the last moment of the period, we have $A_1 = p_1a_1$, and equation (4c) no longer holds. That is, we seem to have a bathtub in which water generates itself spontaneously while lying in the tub! We have

$$A_1 - A_0 = p_1a_1 - p_0a_0 = a_1(p_1 - p_0) + p_0d - p_0c \qquad (6)$$

Thus instead of investment $(A_1 - A_0)$ being equal to saving $(p_0d - p_0c)$, it is equal to saving plus the appreciation due to the rise in price. The only way to restore the equality of saving and investment would be to define income as including the appreciation of assets due to price changes; i.e., as $a_1(p_1 - p_0) + p_0d$. There is something to be said for this definition of income; it is in fact that commonly used in the business world; however, we have the uneasy feeling that a rise in income due to increased "earnings"—i.e., addition to real assets—is in some way different from a rise in the price per unit of existing assets. The difficulty is mainly a terminological one, but it may cause some confusion. Similarly the value of production or of consumption may rise either because physical production or consumption rises, or because prices or wages rise.

The relation of consumption to prices and production is a complex one when prices can change. The competitive market price, as I have shown in a previous paper,[5] is equal to the ratio of the quantity of money to the stock of the commodity, multiplied by the preferred

[5] *Economica*, May, 1944, p. 62. If P is the price, M the quantity of money held by the marketers, Q the quantity of commodity, r_m the preferred liquidity ratio; i.e. the proportion of total assets which people wish to hold in the form of money, and r_q the preferred

commodity ratio and divided by the preferred liquidity ratio. Consumption, therefore, operates on the market mainly by its effect on the stocks held. An increase in the consumption of any commodity, or of all commodities, other things remaining the same, will reduce their stocks and therefore augment prices. This rise in prices will reinforce the direct effects on production noted before, for when prices are rising it becomes more profitable to hold goods than to hold money. Hence investment, in both the real and the Keynesian sense, is likely to increase, and production is increased beyond what is necessary to replace the consumed stocks. Moreover, the general desire to get rid of money will increase money receipts and expenditures, and will also contribute further towards the rise in prices, as commodity preference (r_q) increases and liquidity preference (r_m) declines. The increase in money receipts may change consumption patterns in an upward direction, which will reduce stocks and lead to still further increases in prices, money receipts, and real consumption; so the spiral may go on until (a) the total of planned budget surpluses and deficits is zero, and (b) physical production is equal to physical consumption plus "planned" physical investment. Similarly a decline in consumption, leading to the accumulation of stocks, may lead to a deflationary spiral of prices, receipts and expenditures, and consumption and production. It is evident that the introduction of flexible prices makes the whole system much more unstable than under fixed prices.

The place of consumption in determining the long-run equilibrium of prices is easy to determine in the case of a single commodity, but is much more difficult in the case of the system as a whole. In the case of a single commodity such as wheat the price can be regarded as the regulator of the "bathtub." If c is the long-run rate of consumption we can assume a long-run demand curve, $c = C(p)$, and if d is the long-run rate of production we can assume a long-run supply curve, $d = D(p)$, where p is the average long-run price. Then if there is no long-run increase in stock (investment), we have $c = d$ in equilibrium, and from these three equations the price can be determined. Or, if there is a long-run rate of investment, e, then $c + e = d$ and the problem is still soluble.

In applying this concept to the system as a whole, however, we run

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commodity ratio, or the proportion of total assets which people wish to hold in the form of commodity, and if T is the total value of assets, then:

$$r_m = \frac{M}{T},\ r_q = \frac{PQ}{T},$$ whence, eliminating T, we have:

$$P = \frac{Mr_q}{Qr_m}$$

into serious difficulties. Let us suppose, for instance, that there is a persistent tendency in the system for production to outrun consumption by an amount greater than the preferred rate of investment. That is to say, stocks are piling up at a rate which is greater than owners are willing to absorb. The result of this situation, as in the case of a single commodity, will be that owners will try to get rid of the unwanted stocks by selling them, causing prices to fall. In the case of a single commodity the fall in price tends to re-establish equilibrium by encouraging consumption and discouraging production .This effect only takes place, however, because the fall in price is relative to that of other commodities. If the price of wheat falls, other prices remaining the same, then production will be diverted from wheat into other things and consumption will be diverted from other things to wheat. But if the price of everything else falls, obviously the fall in the price of wheat will be useless in restoring equilibrium. A general fall in prices, while it is going on, is likely to discourage both production and consumption. But there is no reason to suppose that there is any low level of general prices, incomes, wages, etc., at which equilibrium is restored. There is no particular reason why we should consume more or produce less or invest more at a low general level of prices, incomes, wages, than at a high level. Hence while a disequilibrium in the general production, consumption and investment relationship will produce movements in the general monetary level, these movements of prices, etc., will not lead to the restoration of equilibrium. In the case of output as a whole, that is to say, the law of supply and demand breaks down. The equilibrium of supply and demand applies only to relative prices; it does not apply to general prices.

The long-run "aggregate demand curve"—i.e., the curve showing the relation between total consumption and general prices—is perfectly inelastic. That is, assuming that relative prices are unchanged, there is not the slightest reason to suppose that consumption will be greater at one general level of prices than at another. Similarly the long-run aggregate supply curve, which shows the relation between total production and general prices, is also perfectly inelastic. If now the horizontal distance between these two curves happens to be equal to the preferred rate of investment, monetary equilibrium is possible at any level of general prices, the actual level being set by the quantity of money and the demand for it; i.e., the velocity of circulation. If, however, the horizontal distance between the curves is not equal to the preferred rate of investment, no monetary equilibrium is possible at any level of prices; equilibrium can only be established by shifts in the curves themselves, towards or away from each other. This may take place temporarily through the dynamic effects of price and income changes,

but these effects are not only undesirable in themselves but also offer no permanent solution.[6]

Thus the long-run situation in which the Western World is placed today is one in which there is a persistent tendency for production to be larger than consumption plus preferred investment. There is a long-run tendency to accumulate stocks beyond what investors are willing to hold; hence there is a long-run deflationary pressure, checked by wars and new inventions but always reasserting itself in time of peace. In periods when the deflationary pressure operates fully, as in the thirties, the fall in prices and money receipts and expenditures, by making enterprise unprofitable, moves the long-run aggregate supply curve to the left; unemployment also moves the aggregate demand curve to the left; but probably not as much; there are certain physical limits on the contraction of consumption; hence prices will fall and depression will deepen and unemployment grow until the relatively fast-moving supply curve catches up with the slower-moving demand curve and an equilibrium is reached at a low level of employment and output. The establishment of this equilibrium between production, consumption, and investment, however, deplorable as it is, may necessitate a perpetually falling price level! If the price level stops falling, enterprise becomes more profitable, and production may increase more than consumption, and unless the willingness to invest likewise increases a new disequilibrium will result.

It is no exaggeration to say that consumption is the most important and intractable problem of a mature capitalism. As the total stock of real assets grows, the time must come when the rate of accumulation—i.e., of investment—must decline, and eventually indeed must decline to zero. There is no continuing future for investment; its demise may be put off for a long time by new discoveries, by wars, by the opening up of new fields, but the more investment there is, the more surely does it sign its own death warrant. Hence in the development of economic life, saving—the gap between production and consumption—must likewise decline. There is no sense in a decline in production from present levels, though production like investment has its limits, and eventually technical improvements will be taken out increasingly in leisure.[7] The great problem of the modern age, therefore, is how,

[6] This argument assumes that the price-income level adjusts itself to the quantity of money and the liquidity preference function; i.e., that any change in the price level is the result of changes in the monetary situation. If we assume the general monetary situation fixed and then draw aggregate demand and supply curves, they will not be perfectly inelastic; with a fixed quantity of money and fixed liquidity preference, a low price level may encourage both consumption and investment.

[7] Leisure can, of course, be regarded as a form of production analogous to "services" in which production and consumption are simultaneous and therefore equal. The shift of production from goods to services and leisure is thus one method of diminishing saving.

eventually, to increase consumption to the point where full production can be maintained. Unfortunately the only respectable method of consumption on a large scale is war, and it is to this that the nations resort, apparently, when the burden of abundance becomes too great. The world now sits on the prongs of a monstrous dilemma of its own making: to expand consumption through war, or to diminish production through depression and unemployment. Unless the consumptive powers of the state can be used for raising the standard of life rather than for destruction and waste, I see no escape from this dilemma; for the price system, as I have shown, is utterly unable to solve the problem. While there may be much to be said for relative price adjustments, a general "low price policy" cannot encourage consumption sufficiently to create full employment. Whether relative price adjustments and a redistribution of income could do so is a question to which we do not know the answer; there is no reason why attempts should not be made along these lines. But there is no point in relying exclusively on such policies when their results are so much in doubt, when we have in the consumptive powers of the state a weapon powerful enough for our purposes. It is a dangerous weapon, for danger is a necessary corollary of power. But unless we become skilled in its use I see no future whatever for a free economy or a free society, and we must resign ourselves to an ever increasing degree both of economic and political tyranny.

ASPECTS OF WARTIME CONSUMPTION

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A full account and appraisal of consumption during this war must await the peace, when there will be opportunity to assemble and analyze the mass of material now lodged in the war agencies, and for persons now engaged in the operation of programs affecting civilian consumption to write of their work. This paper is focused on some of the high lights of wartime consumption in the United States through 1944, with incidental reference to the United Kingdom. Unfortunately, some of the more striking developments may occur in 1945. Under the term "consumption" are included such things as consumer expenditures, production of consumer goods, and the disappearance of such goods, which are not consumption in the strict sense of the using up of goods in the direct satisfaction of wants. Nevertheless, the topics considered seem to fall more appropriately under this term than any other. Although every topic furnishes opportunities for statistical analysis and discussion of theoretical implications, it is necessary to keep largely to a factual presentation in order to present even a higher generalized picture of wartime developments.[2]

I. *Income and Expenditures*

Salient characteristics of the United States war economy are evident in the numerous series relating to gross national product, national income and consumer expenditures compiled by the Bureau of Foreign and Domestic Commerce.[3] These series have undergone a remarkable development since the inception of the rearmament program.

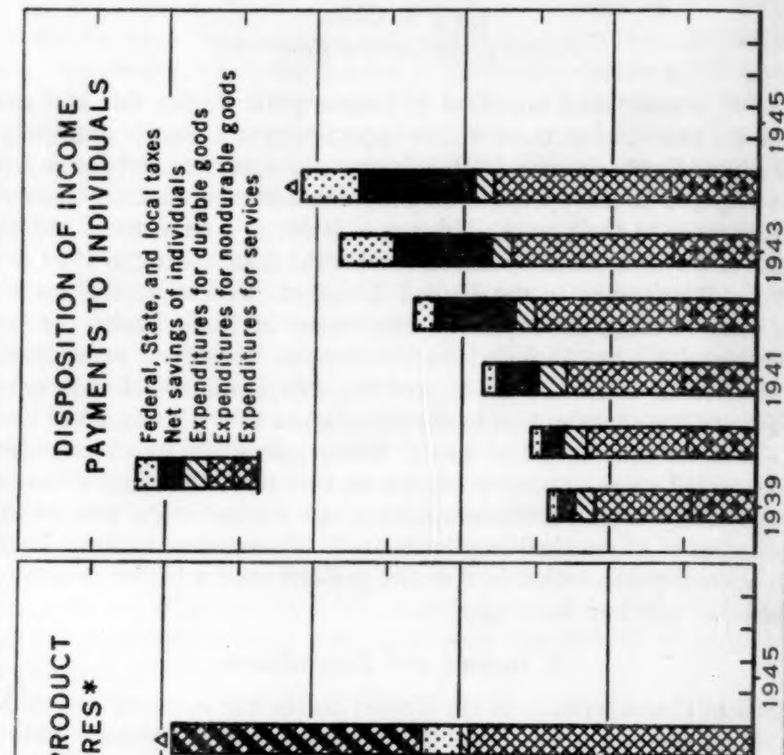
The left-hand portion of Chart I shows the gross national product since 1939, divided into: (1) government expenditures (war and nonwar); (2) private gross capital formation; and (3) consumer expenditures. For 1944, the gross national product is estimated at 197 billion dollars, 122 per cent higher than in 1939. Government expenditures of war jumped from 1.4 billion dollars in 1939 to about 85

[1] Any views expressed are the writer's and do not necessarily reflect in any way those of the Bureau of Agricultural Economics.

[2] The first general treatment of the position of consumers during wartime appears to be Faith M. Williams, "The Standard of Living in Wartime," *The Annals* (American Academy of Political and Social Science), Sept., 1943, pp. 117-127.

[3] The nature of these series is generally familiar. Detailed explanations may be found in M. Gilbert, "Measuring National Income as Affected by the War," *Journal of the American Statistical Association*, June, 1942, pp. 186-198, and M. Gilbert and R. B. Bangs, "Preliminary Estimates of Gross National Product, 1929-41," *Survey of Current Business* (Bureau of Foreign and Domestic Commerce), May, 1942, pp. 9-13. An excellent nontechnical discussion is M. Gilbert and G. Jasze, *National Product and Income Statistics* (Dun and Bradstreet, 1944—a reprint of two articles from *Dun's Review*).

GROSS NATIONAL PRODUCT OR EXPENDITURES, AND DISPOSITION OF INCOME PAYMENTS TO INDIVIDUALS, UNITED STATES, 1939-44



billion dollars in 1944, and accounted for approximately 43 per cent of the gross national product in that year compared with only 1.6 per cent in 1939. Total consumer expenditures rose steadily from 61.7 to 96.5 billion dollars, a rise of 56 per cent, but accounted for only 49 per cent of the gross national product in 1944, as against 69.6 per cent in 1939. Private gross capital formation increased from 10.7 billion dollars in 1939 to 19 billion in 1941, and then dropped sharply, with 1944 estimated at 2.6 billion dollars. This component accounted for slightly over 1 per cent of the gross national product in 1944, compared with 12.3 per cent in 1939.

The right-hand portion of Chart I shows the disposition of income payments to individuals divided into: (1) personal taxes; (2) net savings of individuals; and (3) consumer expenditures for durable goods, nondurable goods and services. Since income payments usually represent a large portion of the gross national product, the movements of the two series are closely parallel. The percentage increase in income payments between 1939 and 1944 was 121 per cent, about the same as for the gross national product. Despite the 56 per cent increase in consumer expenditures, the proportion of income payments represented by expenditures declined from 87 per cent in 1939 to 61 per cent in 1944. This shift is accounted for by the startling increases in taxes and savings. Personal taxes increased from 3.2 billion dollars in 1939 to 19.6 billion in 1944, a rise of over 500 per cent, accounting for 12.5 per cent of income payments in 1944, compared with 4.5 per cent in 1939. Net savings of individuals increased from 6 billion to nearly 40 billion dollars, a rise of 560 per cent, accounting for 25.2 per cent of income in 1944 as against 8.5 per cent in 1939.

The tremendous increase in savings has been one of the most discussed aspects of the wartime economy.[4] Savings of individuals during the three years 1942-44 have already exceeded 100 billion dollars, about double the amount that would have been expected from the actual level of disposable income. This phenomenon has been due to various causes, including the almost complete disappearance of the more important consumer durable goods, relatively large supplies of other consumer goods combined with price control and rationing, the war bond campaigns, and the widespread desire to create a financial backlog for the future. It is interesting to note that the savings in excess of the amount explained by the level of income (about 50 billion dollars) are approximately equal to the expenditures in consumer durable goods, which might have been expected from the level of disposable income.

[4] See particularly, M. S. Livingston, "Wartime Savings and Post-war Markets," *Survey of Current Business*, Sept., 1943, pp. 12-18, and S. H. Slichter, *Present Savings and Post-war Markets* (New York, 1943).

The bulk of these savings are in highly liquid form, with government bonds accounting for about one-third of the 1942-44 total, and currency and bank deposits for about another third. The balance represents the acquisition of other equities and the reduction of individual indebted-

CONSUMER EXPENDITURES RELATED TO DISPOSABLE INCOME, UNITED STATES, 1929-44

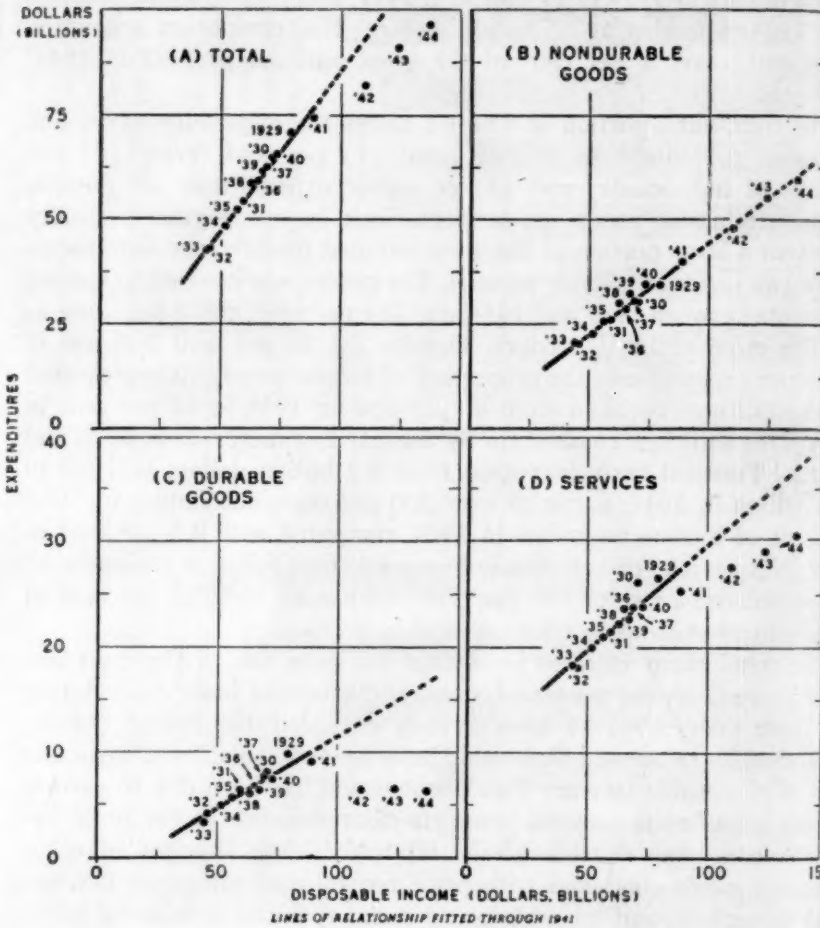


CHART II

ness.[5] These savings, which are primarily the result of wartime deficit financing, are viewed with mingled concern and hope—concern over the inflationary aspects and the parallel rise in the public debt; hope

[5] On the accumulation of liquid assets, see "The Wartime Expansion of Liquid Assets" *Federal Reserve Bulletin*, Oct., 1944, pp. 953-961.

that their liquidation will stimulate and support the postwar economy. Analysis of the implications of postwar savings is beyond the scope of this paper. However, it may be noted (1) that the influence of accumulated savings will probably make itself felt more through the spending of a larger-than-usual portion of income than through direct liquidation of savings; (2) that the volume of deferred demand will be much less than the volume of savings attributable to inability to purchase durables in the war years; (3) that although the initial impact of deferred demand will probably be heavy, the entire deferred demand will be spread over a period of several years; and (4) that the effective demands implicit in wartime savings will be accelerated or retarded by the actual levels of postwar income. On balance, these savings appear to be a favorable factor in the postwar period.

Chart II relates total consumer expenditures and the three major subgroups to disposable income. The regressions are fitted to the twelve years 1929-41. The relation of total consumer expenditures to disposable income (Section A) holds through 1941, and expenditures continue to increase during the years 1942-44, but the rate of change relative to disposable income declines; that is, if a regression were fitted to these years, the slope would be less steep than in the years 1929-41.

The predominant influence of the decline in purchases of consumer durables on the change of relationship between total expenditures and disposable income is evident in Section C. Expenditures for durables had a precipitous drop in 1942, with the two succeeding years remaining fairly close to that level. Expenditures for services relative to income (Section D) showed an appreciable decline in 1942 with moderate increases in 1943 and 1944. However, these increases did not keep pace with income as in the years prior to 1942, and reinforced the influence of the decline in expenditures for durables on the relationship between income and total exepnditures in 1942-44. The data in Section B show the remarkable adherence of expenditures on nondurable goods to the 1929-41 relationship with disposable income. It is obvious that it was the ability to expand in this sector which enabled the economy to show only a moderate decline in total consumer expenditures relative to income during the war. Commodities within each of the three subgroups show interesting variations from the groups as a whole, and a few of these are mentioned below in connection with the discussion of the expenditure series in terms of constant dollars.

II. *The Level and Content of Consumption*

The first part of this section consists of the presentation of certain consumer expenditure series in both actual and constant dollars. The limitations of statistical deflation are fully recognized, but the paucity

of consumption series in terms of actual quantities is sufficient justi fication for the procedure.[6] The second part consists of some selecte evidences indicating the need for caution in interpreting the consump tion picture on the bases of general averages alone.

Table I contains selected series of consumer expenditures in actua dollars and in 1939 dollars, while Table II contains the same series a percentages of 1939. In terms of 1939 dollars, total expenditures sho a small drop in 1942, followed by a gradual upward movement in 194 and 1944. This was accounted for by the total goods series, as service

TABLE I

CONSUMER EXPENDITURES, IN ACTUAL AND 1939 DOLLARS, SELECTED SERIES, 1939 AND 1941–44*

	1939		1941		1942		1943		1944	
	Actual	1939 dollars	Actual	1939 dollars	Actual	1939 dollars	Actual	1939 dollars	Actual	193 doll
	(*in millions of dollars*)									
Goods and services	61,663	61,663	74,583	69,665	81,862	68,769	90,908	70,681	97,630	72,9
Total services	22,684	22,684	25,408	24,788	27,621	25,387	29,262	25,379	30,945	25,1
Total goods	38,979	38,979	49,175	44,877	54,241	43,382	61,646	45,302	66,685	47,8
Total nondurable	32,595	32,595	40,083	36,584	47,910	38,318	55,080	40,393	59,970	43,1
Food	18,069	18,069	22,320	19,805	29,932	21,404	32,618	22,433	36,060	24,8
Clothing and related items	6,792	6,792	8,407	7,734	10,229	8,023	12,156	8,919	13,175	9,0
Tobacco	1,845	1,845	2,213	2,116	2,485	2,312	2,749	2,433	2,795	2,4
Gasoline and oil	2,062	2,062	2,444	2,371	1,909	1,763	1,429	1,315	1,495	1,3
Other nondurables	3,827	3,827	4,699	4,558	5,355	4,816	6,129	5,293	6,445	5,4
Total durable	6,384	6,384	9,092	8,293	6,331	5,064	6,565	4,909	6,715	4,7
Furniture and equipment	2,998	2,998	4,294	4,002	3,926	3,176	3,715	2,845	3,810	2,7
Autos and parts	2,259	2,259	3,264	2,899	601	456	610	425	625	4
Other durables	1,127	1,127	1,534	1,392	1,804	1,432	2,240	1,639	2,280	1,6

* Source: Department of Commerce.

remained almost constant in 1939 dollars. Within the goods series, th dominant influence of the expansion of nondurables is apparent, as i the partially offsetting decline in the durables. The only nondurabl subgroup to show a drop is gasoline and oil. The rise in the series fo clothing and apparel conceals the wartime decline in civilian leathe shoe output, which was below 1939 in both 1943 and 1944. The pre dominant influence of automobiles and parts on the durable series i evident. The moderate drop in furniture and related items appears t be a combination of a moderate rise in furniture, more than offset b the related items, which include refrigerators, washing machines, sew ing machines, and various household appliances. The high level of th

[6] Discussion of the problems of statistical deflation and the adequacy of existing pri indexes is beyond the scope of this paper. However, attention is called to Simon Kuzne study, *National Product—War and Prewar* (National Bureau of Economic Research, Occ sional Paper 17, Feb., 1944). A discussion of differences between his method of deflation a that of the Department of Commerce with respect to consumers' outlay will be found pages 34-37. His implicit price index for 1942 (1939 = 100) was 122 compared with 11 for Commerce. However, the Commerce deflators used in the following tables are som what higher than those previously employed, the 1942 price index, for example, about 119.

other durables was maintained by the expansion of a number of miscellaneous items, of which jewelry and watches were particularly important. Expenditures for this latter group in 1944 were about 186 per cent above 1939 in actual dollars, and about 70 per cent in 1939 dollars. The stability of the services in terms of 1939 dollars appears to be the result of various counter movements within the group as a whole. In terms of 1939 dollars, housing and medical care appear to have been relatively stable, with domestic service dropping sharply and

Table II

Consumer Expenditures, Actual and 1939 Dollars, as Percent of 1939, 1941–44*

	1941		1942		1943		1944	
	Actual	1939 dollars	Actual	1939 dollars	Actual	1939 dollars	Actual	1939 dollars
	(*Percent of 1939*)							
Total expenditures	121.0	113.0	132.8	111.5	147.4	114.6	158.3	118.3
Total services	112.0	109.3	121.8	111.9	129.0	111.9	136.4	110.7
Total goods	126.2	115.1	139.2	111.3	158.2	116.2	171.1	122.8
Nondurable	123.0	112.2	147.0	117.6	169.0	123.9	184.0	132.2
Food	123.5	109.6	165.7	118.5	180.5	124.2	200.0	137.4
Clothing and related items	123.8	113.9	150.6	118.1	179.0	131.3	194.0	133.3
Tobacco	119.9	114.7	134.7	125.3	149.0	131.9	151.5	130.9
Gasoline and oil	118.5	115.0	92.6	85.5	69.3	63.8	72.5	66.4
Other nondurable	122.8	119.1	139.9	125.8	160.2	138.3	168.4	142.1
Durable	142.4	129.9	99.2	79.3	102.8	76.9	105.2	74.6
Furniture and equipment	143.2	133.5	131.0	105.9	123.9	94.9	127.1	90.1
Autos and parts	144.5	128.3	26.6	20.2	27.0	18.8	27.7	17.7
Other durables	136.1	123.5	160.1	127.1	198.8	145.4	202.3	147.3

* Source: Department of Commerce.

commercial laundry services rising sharply. The whole situation is evidently a mixed one, but supports the frequently made observation that the total flow of goods and services to civilian consumers during the war period has, on the average, been at a remarkably high level. This is true even though most price indexes appear to understate the full degree of wartime price advances, thereby causing deflated expenditure series to overstate the magnitude of the flow of real goods and services.[7]

Although deflated series must be relied on to obtain a general picture of civilian consumption, more direct data are available for a few items.

[7] The British White Paper, *Statistics Relating to the War Effort of the United Kingdom* (London, Nov., 1944), contains a number of personal expenditure series in actual and constant prices for the years 1939 to 1943. In terms of constant prices, personal expenditures on consumption (excluding indirect taxes and increased subsidies) in 1943 are given as 79% of 1939. Striking declines are shown for such expenditures as clothing and dress materials, hardware, furniture and furnishings, and private cars and bicycles (tables 24 and 26).

This is particularly true for food and shoes. Food is treated below as a separate topic; shoes are very briefly summarized here.

The production of footwear, other than rubber, reached a peak of approximately 500 million pairs in 1941, about 100 million above 1940. Production for 1944 appears to be only slightly below the 1941 peak. The maintenance of the high level of shoe production, however, has been due to expansion in the output of footwear made principally of materials other than leather and rubber, which reached 150 million pairs in 1944, about double the 1940 level. The production of leather shoes has declined steadily since 1941, with an estimated production of 262 million pair in the first ten months of 1944, about 26 per cent below production in the same months of 1941 and 15 per cent below the same months in 1939. When the production of civilian leather shoes is considered separately, the decline in production becomes substantially larger, with production of 220 million pair in the first ten months of 1944, about 36 per cent below the comparable period in 1941 and 26.5 per cent below the comparable period in 1939. Within the civilian total, the production of all types in 1944 was below the level of 1939, with the exception of infants' shoes, which were 15 per cent above the comparable period in 1939. Due to the increased production of the substitute types of footwear, and the ability of consumers to draw on heavy dealer inventories of leather shoes, sales of all shoes during the period 1942-44 appear to have been stabilized at around 460 million pairs annually, or about 5 per cent above the 1941 level. Sales of rationed-type civilian shoes have steadily outrun new supplies, and by the end of 1944 appear to have resulted in a reduction of inventories about 45 per cent below the high level accumulated before rationing went into effect. Sales of rationed type shoes in 1944 appear to have been around 300 million pair, slightly below the level of 1941. Somewhere around 25 million pair appear to have been released ration-free, the balance being sold under coupons.[8]

Other items with respect to which some direct evidence is available include clothing, alcohol, and tobacco. The table below contains the Federal Reserve indexes of civilian clothing production shifted to a 1939 base. These indicate more retardation in the flow of this segment of civilian goods than do the deflated series of consumer expenditures for clothing. Figures for 1944 are not available, but partial data for for the year indicate that the total index is likely to be slightly below 1943.

The consumption of alcoholic beverages has increased markedly during the war. Compared with 1939, percentage increases in the consump-

[8] This summary is based on appraisal of the shoe and leather situation in the *Survey of Current Business*, Jan., 1945, pp. 4-6, 20.

tion of the major beverage groups in 1944 were as follows: distilled spirits, 22 per cent; wines, 17 per cent; package beer, 92 per cent; draft beer, 11 per cent. The per capita consumption of tobacco products as a group has also shown a marked increase during the war. Consumption was 21 per cent above 1939 in 1943 and 16 per cent above in 1944. The greater part of the increase has been accounted for by cigarettes, which were 46 per cent above the 1939 level in 1943. A decline to 36 per cent in 1944 resulted in a widespread shortage relative to demand.

The picture given by the broad national averages required modification when some of the details are examined. General shortages of various degrees, geographic maldistribution, quality deterioration, and the

Index Numbers of the Production of Clothing for Civilians, 1941-43*

Item	1941	1942	1943
		1939 = 100	
Total	113	103	98
Garments:			
Women's and children's	113	115	119
Men's and boys'	115	94	78
Shoes, hosiery, hats, gloves	109	96	93

* Source: Board of Governors of the Federal Reserve System, published in *Federal Reserve Bulletin*, Apr., 1944, p. 309.

disappearance of low-price lines and size classes, particularly large sizes and outsizes, have been quite widespread. In this connection, it is important to distinguish between changes in the level and content of civilian supplies due to the unavoidable necessities of war and those due to failure to utilize available resources in the most effective manner.

A large number of the shortages and adverse quality changes are obviously the result of the inroads of war requirements on supplies of basic raw materials, manpower, equipment, and end products. Their impact is most clearly seen in the virtual disappearance of the more important consumer durables, the direct consumer rationing of a number of important commodities, and in the reduced availability of numerous services, such as travel and the delivery of goods to households. It is also evident in the substitution, partial or complete, of raw materials different from those customarily employed. This last type of change may be illustrated by the substitution of glass and earthenware in cooking utensils previously made of aluminum and steel; painted ashcans of thinner metal in place of galvanized; the stuffing of mattresses and upholstery with hair, casein fiber, and cotton waste in place of duck feathers, down, and kapok; and the disappearance of metals, others than iron and steel, from household furniture, with the use of these metals materially reduced.[9] It should be pointed out, however,

[9] See Laura B. Webb, "Wartime Changes in Consumer Goods in American Markets," *Monthly Labor Review*, Nov., 1942, pp. 891-902.

that not all substitutions necessarily resulted in poorer products, many of the glass cooking utensils, for example, being of good quality.

For a number of commodities, shortages have been of a nature to require rationing programs, carried out by the Office of Price Administration. During 1942, sugar, tires, automobiles, bicycles, typewriters, gasoline, fuel oil and kerosene, men's rubber boots and rubber work shoes, stoves, and coffee were placed under rationing. The gasoline program was first limited to the Eastern Seaboard, but was made nation-wide by the end of the year. The fuel oil program originally embraced thirty states and the District of Columbia, and was later extended to Washington, Oregon, and parts of Idaho. The year 1943 saw the addition of leather shoes, and a considerable number of foods, including meats, canned fish, cheese, fats, and oils, and a wide range of processed foods, principally canned fruits and vegetables. A distribution program for firewood was inaugurated in the Pacific Northwest in February, and was extended to all hard fuels in that area in the fall. Coffee was removed from rationing in July, 1943.[10]

Each of the several rationing programs provides a rich field for investigation, not only of the level and content of consumption, but of various aspects of consumer behavior under rationing. Due to the impossibility of assimilating quickly the material pertaining to these programs, no attempt will be made to synthesize the experience within this field. However, the type of consumer behavior on which analysis of rationing programs can throw some light may be illustrated by brief reference to the shoe rationing program. The shoe rationing program from November, 1943, through November, 1944, has been based on an allowance of two pairs of leather shoes each year, which is substantially below the 1939 rate of purchase and well below the level of wartime consumer demand. The early phases of rationing were characterized by an extremely heavy run in June, 1943, which led to the dropping of the expiration date, as well as to a tightening up of the general program, which had previously called for three pairs of shoes per person each year. Alterations in buyers' habits under rationing included reduced buying of adult's shoes, with the saved coupons being diverted to children's shoes. This shift was reflected in a very large increase in the volume of shoe repairing, making it necessary to provide half soles for civilian shoe repairing in 1944 at about double the prewar rate. Consumer inventories of shoes appear to have been maintained at an average of around two and a half pairs per person, with a rise in inventories of men's shoes offsetting a decline in those of women and children. Desire to obtain shoes of high durability led to a heavy con-

[10] The general development of the rationing programs is outlined in the *Quarterly Reports* of the Office of Price Administration.

centration of purchases in the higher-priced shoes. So persistent was this association of price and quality in the minds of consumers that difficulty was experienced in moving lots of low-priced shoes even though these shoes were of definitely higher quality than some currently available in the higher price brackets.

No attempt will be made to appraise the general impact of the rationing programs in the United States, but it may be noted that it is considerably less extensive and onerous than in the United Kingdom.[11] In mid-1944, rationing was in effect on a wide range of foods in the United Kingdom. It has been necessary to carry the control of food beyond coupon and point rationing to include priority schemes that direct supplies of oranges, fruit juices, and cod liver oil to infants, growing children, and expectant mothers, and provide them with extra quantities of milk. Special canteens provide low-price meals, supplementing the regular rations, to workers in heavy industries. Clothing is completely rationed and is at a level insufficient to replace wardrobes. Towels and yard goods are included in the clothing ration. Children and workers in heavy industries receive supplementary clothing rations. Women's stockings are limited to five or six pairs a year. The rationing limits men to one pair of boots, shoes, and slippers in thirteen months and women to one pair in eight months. Furniture production is restricted to strict utility lines and is available only to newly-married persons, bombed out families, and families needing beds for growing children. Gasoline was first rationed and later restricted to essential users through a permit system.

The rationed commodities were by no means the only civilian goods to present serious problems in the United States. From Pearl Harbor until about the middle of 1943, civilian goods appeared primarily on a residual basis. They were what remained after noncivilian requirements had been met. The defects of this arrangement became apparent as war production attained its full stride and inventories, particularly of low-cost essentials, of many civilian goods were reduced or eliminated. Subsequently, civilian supplies were placed on a program basis. Minimum civilian requirements were calculated and presented as positive claims against available supplies and resources. Relying to a considerable extent on historical consumption series weighted by data from surveys of consumers and merchandising outlets, civilian requirements were calculated and programs were developed to match requirements with the necessary raw material, plant, equipment, and man-

[11] There are numerous accounts of the British rationing system. Important basic facts are included in *Statistics Relating to the War Effort of the United Kingdom*, and pamphlets issued by the British Information Service. See particularly *Rationing of Food in Great Britain* (Pamphlet I.D. 333, revised July, 1943) and *Clothes Rationing in Britain* (Pamphlet I.D. 333, Dec., 1942).

power, coupled wth various degrees of control over the end products, in terms of quantity, type, price classes, and quality. By the middle of 1944, the civilian production program of the Office of Civilian Requirements, War Production Board, embraced about 700 civilian items within the broad fields of apparel; textile fabrics and leather products; chemicals, drugs, and health supplies; construction material and equipment; paper products and lumber; equipment and supplies for government agencies and public institutions. The individual products affected ranged from heavy items such as tractors, laundry equipment, furnaces, and kitchen sinks to such small everyday necessities as men's shorts, razor blades, tooth brushes, fountain pens, clothes pins, and matches.

The nature of these civilian goods programs may be illustrated by reference to wearing apparel, where, for a considerable number of items, the situation has become acute with respect to shortages, quality deterioration, and the disappearance of low-price lines. The last two conditions usually go together, in the sense that not only are the low price articles unavailable but the available higher priced articles are not of the quality previously associated with their selling prices. A consumer survey made by the Civilian Relations Division, Office of Civilian Requirements, covering seventy-five textile and apparel items in the first quarter of 1944 reveals a number of serious problems within this field of consumer goods.[12] The answers to the various questions shed light on shortage (in terms of inability to purchase an article or satisfactory substitute), price-quality difficulties, and the existence of inconvenience or hardship. The results are somewhat difficult to summarize and interpret, principally because of the lack of correlation among the various categories of answers. Thus, sheets were high in the list in terms of shortage, price-quality complaints, and expression of hardship; whereas men's work shirts were low in the first two categories but very high in the last. In terms of shortage, the top item was wide sheeting. In terms of hardship, it was knit cotton underwear in all age groups. In terms of price-quality complaints, it was snow suits for girls, aged seven to fifteen. The degree of shortage was highest on children's clothes, and lowest on clothes for men and boys over sixteen. Shortages appear to have been greatest in the West (Pacific and Mountain states) and lowest in the Northeast (New England and the Middle Atlantic states). It should be emphasized that it is very difficult to separate shortages arising from decline in output from those arising from maldistribution. Also illuminating was a companion survey relat-

[12] *Consumer Demand and Purchasing of 75 Clothing and Textile Items*, year 1943 and 1st quarter 1944, Second Survey of Consumer Requirements, War Production Board, Office of Civilian Requirements, Civilian Relations Division.

ing to the disappearance of low-priced merchandise, and its impact on low income families. Prices of thirteen important articles of clothing in the first quarter of 1944 were compared with prices paid in the calendar year 1941. On the average, families earning less than $20 a week were paying relatively more for the commodities priced than families earning $20 to $39, and families in this group were paying relatively more than those in the next higher bracket—$40 to $59. Some unknown part of these price changes was, of course, due to shifts to higher-priced goods associated with higher incomes, but the disappearance of the low-priced items appears to be the more important cause.

The type of action that such conditions have made necessary is illustrated by production directives, which have increased the output of diapers and bed sheets, and by priority assistance in the allocation of materials for increasing the output of certain goods. An example of the latter is the women's house dress program (conservation order M-3-28-B of the War Production Board), under which priority assistance is given to manufacturers with respect to certain fabrics, provided that dresses produced comply with specifications covering size range, size assortments per dozen, and minimum standards of workmanship. In addition, they must be priced within the ranges established by the Office of Price Administration for such garments.

The importance of the type of program is emphasized by the recent joint formulation by the War Production Board and the Office of Price Administration of a priority system for lower-priced clothing and textile items, to be applied initially to woolens and rayons. These plans would require mills to set aside upwards of 75 per cent of their output of certain staple fabrics to satisfy manufacturers' priority ratings for use in the production of stipulated clothing and textile items. These items would be concentrated in the lower-price lines through the establishment of price cut-off points and the requirement that average selling prices of the authorized items not exceed average prices received in a specified base period, indicated to be the first half of 1943. This requirement automatically has the effect of requiring a distribution of production among the various price classes similar to that in the base period.[13]

Space does not permit more examples, but it may be of interest to note that various combinations of shortage, quality deterioration, disappearance of low end items, and upgrading have led to the consideration of the need for quality control for items other than textiles, such as infants' and children's shoes, work clothes, baby carriages, kitchen knives, alarm clocks, pots and pans, garbage cans, can openers, brooms, bicycles, flash lights, and various articles of furniture. It might also

[13] See *Journal of Commerce* (New York), Jan. 24, 1945.

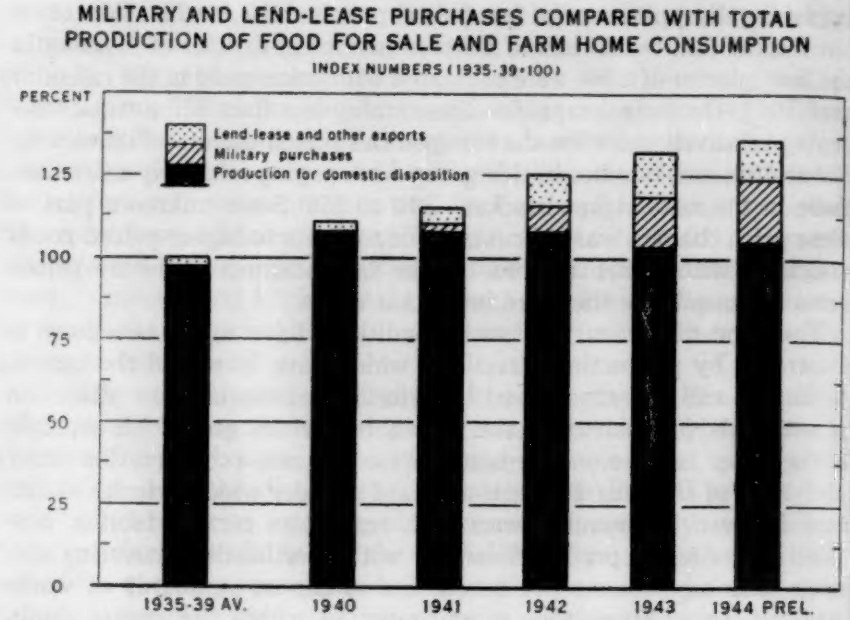


CHART III

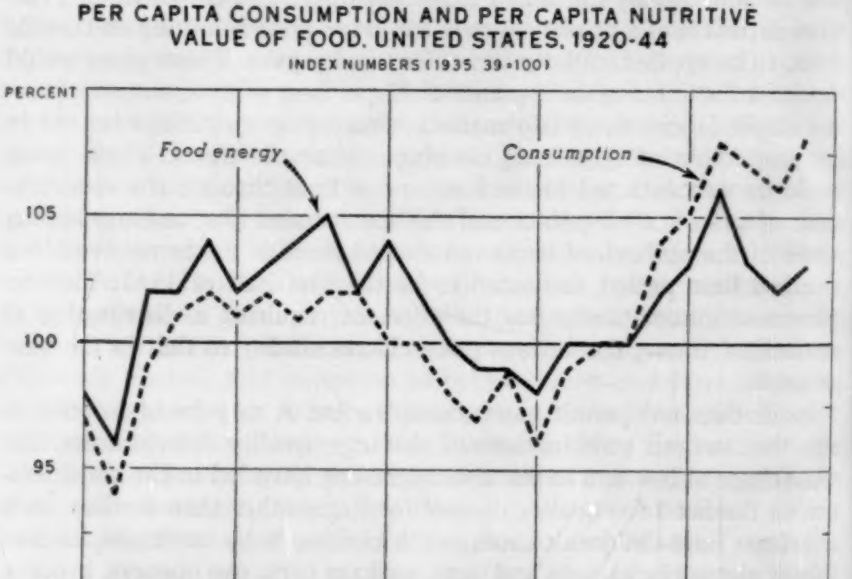


CHART IV

be noted that some of the so-called "victory" models in the durable goods field have proved to be uneconomical, and that shifts to more serviceable products requiring slightly more critical materials have actually resulted in savings in terms of manpower and raw materials.

The preceding selections must suffice to illustrate the nature of some of the deviations from the natural average consumption level as indicated by consumer expenditures. Conditions in the civilian sector of the United States war economy may also be described in terms of time sequence.[14] The first phase, which began in 1939 and ran through 1941, saw production in all civilian lines rising with production for war. The second phase, which may be roughly identified with 1942 and 1943, brought sharp diversion of resources to war goods, which was reflected in the civilian sector principally by the pronounced drop in the output of consumer durables. The output of most nondurables continued to advance, but supplies of some items became sufficiently short relative to war-stimulated consumer demand to require rationing. The third phase, 1944, brought us to the peak of the war production effort and although it did not result in drastic inroads on civilian supplies, it was reflected in the introduction of some degree of rationalization, as illustrated by the more rigorous planning of civilian goods output including some beginning in standardization and quality control. We appeared to be nearing a fourth phase, reconversion, toward the end of 1944, but this was slowed up by changes in the military situation, and it now appears that 1945 will be the low point for civilian consumption.

III. *Food Consumption*

Food consumption is selected as a separate topic as quantity data are more complete and readily available than for most consumption goods. The expansion of wartime food consumption in the United States, together with the impact of military and lend-lease requirements, is shown in Chart III.

In 1934, the index of food production for sale and farm home consumption was 37 per cent above the level of 1935-39, while the quantities going for military, lend-lease, and commercial exports were equivalent to approximately 21 per cent of production in that year. Despite the sharp rise in noncivilian requirements, average per capita consumption in the United States has been appreciably above prewar levels. This is shown by the index number of per capita food consumption in Chart IV, which also contains an index of the energy value (calories) of average per capita food consumption.[15] Food consumption appears to have

[14] Cf. H. Mendershausen, *The Economics of War* (New York, 1943), Ch. 4.

[15] The index of per capita consumption is in terms of quantities consumed at the retail level, weighted by average retail prices in the base period, 1935-39. The calorie content is also computed on the basis of the retail weight of several food items.

TABLE III

APPARENT CIVILIAN CONSUMPTION OF MAJOR FOOD COMMODITIES ON A PER CAPITA BASIS, CALENDAR YEARS 1935–39, 1942, 1943, 1944, WITH PERCENTAGE COMPARISONS*

Commodity	Average 1935–39	1942		1943		1944	
	Pounds	Pounds	Percent of 1935–39	Pounds	Percent of 1935–39	Pounds	Percent of 1935–39
Meats (dressed weight)							
Beef and veal	62.8	69.2	110	57.7	92	65.0	104
Lamb and mutton	6.7	7.2	107	6.3	94	6.2	93
Pork (excl. lard)	56.1	61.5	110	72.6	129	75.8	135
Total meats	125.6	137.9	110	136.6	109	147.0	117
Poultry Products							
Eggs	37.3	38.9	104	42.9	115	43.6	117
Chickens (dressed weight)	17.9	21.5	120	28.1	157	23.0	128
Turkeys (dressed weight)	2.6	3.7	142	3.3	127	3.1	119
Dairy Products							
Total milk	801.0	840.0	105	765.0	96	789.0	99
Cheese	5.5	6.3	115	5.0	91	4.7	85
Cond and evap. milk	16.7	18.3	110	18.6	111	15.5	93
Fluid milk and cream	340.0	372.0	109	404.0	119	421.0	124
Fats and Oils							
Butter, farm and factory	16.7	15.6	93	11.8	71	11.8	71
Lard	11.0	13.6	124	14.5	132	14.3	130
Margarine	2.3	2.2	96	3.2	139	3.2	139
Other	18.0	17.0	94	16.0	89	15.5	86
Total fats and oils	48.0	48.4	101	45.5	95	44.8	93
Fruits							
Fresh:							
Citrus	48.8	57.0	117	59.7	122	67.0	137
Apples (commercial)	30.2	26.7	88	25.2	83	25.9	86
Other (excl. melons)	59.2	46.1	78	35.9	61	54.0	91
Processed:							
Canned fruit	14.9	14.9	100	10.0	67	9.9	66
Canned juices	4.1	6.8	166	6.0	146	9.0	220
Frozen	.7	1.6	229	1.4	200	1.5	214
Dried	5.6	4.5	80	6.2	111	5.2	93
Vegetables							
Fresh	235.3	250.7	107	236.2	100	249.7	106
Canned	31.1	38.7	124	35.5	114	32.5	105
Frozen	.4	1.0	250	.7	175	1.7	425
Potatoes and sweet potatoes	153.3	143.6	94	155.0	101	133.7	87
Beans, dry edible	8.8	9.1	103	8.8	100	8.0	91
Sugar, refined	96.5	86.2	89	80.3	83	88.4	92
Wheat, corn products and other							
Wheat:							
Flour	154.0	157.7	102	159.2	103	160.2	104
Breakfast food	3.6	3.8	106	3.7	103	3.7	103
Corn products:							
Corn sirup	7.7	14.3	186	10.5	136	10.1	131
Corn sugar	3.2	5.5	172	4.6	144	4.4	138
Other corn products	28.1	27.5	98	28.6	102	28.5	101
Other grains	13.2	14.3	108	15.4	117	14.8	112
Beverages							
Coffee	14.0	13.4	96	13.1	94	16.0	114
Tea	.7	.5	71	.5	71	.5	71
Cocoa	4.4	3.8	86	2.9	66	3.4	77

* Based on *The National Food Situation*, Jan., 1945, Table 2. Data for 1944 are preliminary. Calendar year basis except for canned fruits, canned vegetables, and dried fruits which are on a pack-year basis; potatoes which are on the basis of a year beginning July 1; fresh citrus fruits, sweet potatoes, and dry edible beans on a crop-year basis, rice on an Aug. 1 year. All years begin in the year designated except for fresh citrus, which begins in Oct. of the previous year and rice which begins in Aug. of previous year.

followed consumer demand as measured by disposable income very closely through 1941 and to have fallen appreciably below during the three years 1942-44. On the basis of past relationships between consumption, disposable income and food prices relative to nonfood prices, per capita food consumption in 1944 might have been 15 to 18 per cent above the 1935-39 average as compared with the actual 9 per cent which occurred under conditions of restricted supply and rationing.

Table III contains civilian per capita consumption figures for a number of the more important commodities and commodity groups.[16] Almost every item involves a complex history of production, noncivilian requirements, price and income elasticity, substitution, and the food management policies of civilian government agencies.

Fluid milk is an example of a food with a high income elasticity, with civilian supplies sufficient to fill a substantial portion of wartime demand. The decline in the consumption of butter and cheese reflects in part the impact of noncivilian needs, but also a policy of relatively stringent rationing made necessary by the expansion in the civilian consumption of fluid milk and cream. The expansion of margarine consumption is primarily in substitution for butter, but the degree of substitution is considerably less than the shortage of butter relative to demand. This is due to a number of reasons, including the fact that substitution of margarine for butter does not become marked until butter consumption has declined sharply; but also to limitations upon total output of margarine, and strong consumer preferences with respect to the available types of margarine. Meats are also an item of very high income elasticity, but with available civilian supplies shorter in relation to consumer demand than in the case of fluid milk. This situation is reflected in the increased consumption of poultry and eggs, where a substitution effect is clearly at work in addition to price and income influences. The fruit situation involves a very complex set of factors. The consumption of fresh citrus fruit has risen tremendously, partly because of record production, partly because of high income elasticity, partly because of shortages in other fresh, dried, and canned fruits. The sharp rise in the consumption of canned fruit juices and frozen fruits has been caused by factors similar to those affecting the increased consumption of fresh citrus fruit, and in addition appears to have been reinforced by the relatively high demand for prepared and processed foods, which is characteristic of an economy in which people are working long hours and have less than the usual time for the household preparation of food. The expansion of frozen-food consumption has been further accelerated by its removal from rationing. Similar reason-

[16] Based on a more detailed table published in *The National Food Situation*, Jan., 1945, a regular monthly mimeographed publication of the Bureau of Agricultural Economics.

ing applies to the consumption of frozen vegetables. The decrease in sugar consumption is, of course, due to a general reduction in available supplies, together with large noncivilian requirements. The increase in corn sirups and sugar is probably related to the restrictions on sugar consumption. The relatively low income elasticity of the grain products compared to such items as meat and dairy products is evident, although the consumption of these has expanded more than might have been anticipated in view of the persistent long-time downward trend in the consumption of these products. However, relative shortages of the protein foods, increased energy needs of the working population, and, in the case of breakfast foods, the above mentioned increase in demand for prepared and processed commodities, are probably sufficient to explain the movements within this group. Consumption of coffee, cocoa, and tea are all explained by the supply and shipping situation, and the expansion of the consumption of coffee after the removal of rationing is indicative of the high level of demand under wartime conditions of work and income, plus some substitution due to the reduced supplies of tea and cocoa.

There are many other aspects of wartime food consumption that are worthy of examination but cannot be covered here. These include detailed analysis of food consumption expenditures and of the rationing experience. However, a few salient aspects may be noted. One is the stability of consumption expenditures for food relative to disposable income. The ratio of per capita expenditures for food (excluding alcohol and tobacco) was 24 per cent in 1944, the same as in the prewar period 1935-39. This does not appear to be accidental as the range during the sixteen-year period 1929-44 is from 22 to 27 per cent.

The rationing program in foods has innumerable facets. Probably the most intriguing is that of consumption response to point changes. Although there is a mass of relevant data, immediate conclusions are not possible because of the presence of obscuring factors including problems pertaining to seasonal buying, consumer scare buying, the shifting volume of unused ration points, and the adequacy of the sample of consumer buying. However, the effect of point value changes are clear in specific instances, as in the case of the reduction of the point values of a large number of processed foods to zero in the spring of 1943. Increased consumer purchases following this action appear to have been greatly influenced by this point change, even when a large allowance is made for the possible effect of other factors. These were also temporary reverse movements in response to point changes. Consumer buying sometimes fell off after point reductions because of a belief that supplies would remain plentiful; and sometimes increased following point increases in the anticipation of possible further increases. The point

rationing experience also uncovered some commodities that were particularly insensitive to increased point values, such as tomato catsup. It is well recognized that the uniform per capita distribution of ration points did not mean a uniform burden on consumers. One study[17] of this aspect with respect to red points indicates that the pressure of rationing

TABLE IV

ESTIMATED PER CAPITA SUPPLIES MOVING INTO CIVILIAN CONSUMPTION, UNITED STATES, CANADA, AND UNITED KINGDOM, 1944, AS PERCENTAGE OF 1935–39

Item	Specification	1944 as Percent of Prewar		
		United States	Canada	United Kingdom
		Percent	*Percent*	*Percent*
Dairy products, excluding butter	Milk solids, fat and nonfat	118	120	126
Meats	Carcass weight, including edible weight of offal	116	132	81
Poultry, game, and fish	Edible weight	104	106	74
Eggs	Fresh egg equivalent	113	121	102
Fats and oils	Fat content	94	104	84
Sugars and sirups*	Sugar content	89	87	69
Potatoes and sweet potatoes	Retail weight, fresh equivalent	100	97	161
Pulses and nuts	Retail weight, including shelled weight of nuts	125	126	83
Tomatoes and citrus fruits	Fresh equivalent	129	153	69
Fruit other than citrus	Fresh equivalent	89	110	70
Leafy, green and yellow vegetables	Fresh equivalent	120	116	147
Other vegetables	Fresh equivalent	110	100	140
Grain products	Retail weight of finished product	104	107	117
Beverages	Primary distribution weight	103	98	83

* Total for human consumption. Excludes sugar and sirup used for industrial purposes such as tobacco, but includes sugar and sirup duplicated elsewhere in canned fruits, canned vegetables, condensed milk, and cereal breakfast foods, as well as sugar and sirup used in brewing and distilling. United States figures are essentially the same as those published in *The National Food Situation* for July, 1944. Differences between United States figures in this table and in Table III are due principally to the different dates of computation and to slight differences in classification.

was greater in the cities than in the small towns and in the country. It also indicated greater pressure on the higher-income groups than on the lower-income groups, and on small families compared with large ones.

As a result of two reports by a special Joint Committee established by the Combined Food Board, it is possible to make direct comparisons of the per capita food consumption levels in the United States, Canada and the United States, Canada, and the United Kingdom.[18] Table IV

[17] W. C. Waite, "The Pressure of Red Point Rationing," *Journal of Marketing*, Apr., 1944, pp. 422–424.

[18] *Food Consumption Levels in United States, Canada and the United Kingdom*, Report of a Special Joint Committee set up by the Combined Food Board, issued by U. S. Department of Agriculture, War Food Administration, Apr., 1944. Second report issued Dec., 1944. For an analysis of food rationing covering most of Europe and a number of other

contains certain summary comparisons for the three countries in terms of the relation of 1944 consumption to prewar levels for the major food groups.[19]

The following quotation summarizes the findings with respect to civilian food supplies in 1944:

> The 1944 level of civilian consumption in the United States and Canada is much higher than that of the United Kingdom in respect to dairy products (except cheese), meat, eggs, sugars, and fruit. In contrast, to compensate for the shortage of other foods, the consumption of potatoes and flour has increased appreciably in the United Kingdom during the war period, and considerably greater quantities of these foods are now eaten in Britain than in either the United States or Canada. Despite some improvement in 1944, therefore, the range of foods which can be bought in the United Kingdom is still much more restricted than in the other two countries, and the diet continues to suffer from a lack of palatability compared to the prewar diet.

With respect to nutrients, the report states that "in all three countries the nutrient content of the total food supplies entering civilian consumption, if they were distributed broadly in accordance with physiological needs, would exceed nutritional intake requirements on a restricted basis," and that with certain exceptions, "supplies appear to be adequate to meet intake requirements based on the full National Research Council (United States) 'recommended dietary allowances' of nutrients." The exceptions noted are ascorbic acid in Canada, vitamin A, and riboflavin in the United Kingdom.

All of the three countries have undertaken consumer rationing of food. The United Kingdom has the largest number of foods under rationing; Canada has the smallest. The United States is in between, with rationed foods estimated at approximately 33 per cent of food consumption in the latter part of 1944. With the return of fats and oils to rationing, the present percentage is somewhat larger. None of the countries has rationed poultry, fresh fish, bread, flour, potatoes, fresh vegetables, and fresh fruits (except citrus, which is rationed in the United Kingdom). All the countries have rationed sugar, butter, canned milk, and canned fruits. The United States is the only one of the three countries that has not rationed tea, sirups, molasses, and honey, while Canada is the only country that does not ration meat and cheese, although meat was under rationing in Canada for nearly a year beginning in May, 1943. In the United States, the point system predominates, whereas the rationing in Canada is largely on a weekly quantity basis, and in the United Kingdom on either a weekly quantity or value basis.[20]

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countries, see *Food Rationing and Supply 1943-44* (League of Nations, II Economic and Financial 1944, II A.3). This extends an earlier study, *Wartime Rationing and Consumption* (II. Economic and Financial, 1942, II. A2).

[19] Data from Table 1, p. 5. Quotations following from pp. 2 and 3.

[20] This paragraph is based upon Ch. 5 of the consumption level study, but the estimate of the percentage of food consumption rationed is the writer's.

IV. *Concluding Observations*

The foregoing selection of facts and figures has been determined largely by the immediate availability of data and, even with respect to this material, only a bird's-eye view has been attempted. Because of difficulties in interpreting data or adequately summarizing within a brief space, important fields, such as transportation and housing, have been omitted.

The civilian consumption aspects of the war economy do not throw a great deal of light on the problems of consumption in the postwar economy. The lessons of a war economy apply in the main to war itself, and in this respect there are important lessons within the civilian consumption segment, the chief of which is that planning and control within this segment should be an integral part of a major war effort from the very start.

On the whole, one is impressed by the high average level of civilian consumption, which has been far above the level that many thought feasible, and by the small degree of distortion in the general consumption pattern, particularly for nondurable goods. For a large segment of civilian goods, supplies substantially exceeded prewar levels and the wartime consumption of these goods can be explained largely in terms of prewar relationships with prices and income. Where consumption departed markedly from these relationships, the departures can usually be explained by shortages in supply and by rather obvious substitutions. With supplies of most nondurable goods relatively large through 1944, and with a considerable stock of durables in distribution channels or consumers' hands when output was curtailed, the occasion for startling changes in consumption did not appear.

The great accumulation of savings and the backlog of deferred demand will, of course, have particular influence on the course of economic events. It seems likely that the savings will, in the absence of a severe depression, cause consumers to spend a larger than usual part of their current disposable income during the first several years of the postwar period. This will be generally stimulating, and, in conjunction with the deferred demands, will give particular impetus to the production of consumer durables and to housing. This development, however, will bring its own difficulties in the form of an expansion in investment appropriate to a level of demand that cannot be indefinitely maintained.[21]

Although the manifold wants of consumers are the fundamental driving force in economic activity, and consumption has been traditionally

[21] This refers to the cyclical problem involved in a rapid expansion of consumer goods production after the war. It has been briefly but excellently stated by D. McC. Wright in "Hopes and Fears—The Shape of Things to Come," *Review of Economic Statistics*, Nov., 1944, pp. 211-212.

honored as the end of such activity, the idea of national policies which attack the problem of consumption directly has only recently begun to receive serious attention. In contrasting policies of expanding consumption with those of offsetting savings, Professor J. M. Clark has recently written:

> The high-consumption policy requires more change in the customs of the people, not only in consumption but in the methods of making provision for future needs. Therefore, it will take more time, thought, and experimenting to carry it out, but in the long run it is likely to be the sounder line of policy.[22]

The development of policies in the consumption field following the war will depend on our statistical knowledge of the behavior of consumers in peacetime and on general theoretical reasoning rather than on what has happened during the war.[23] Measures designed to raise and maintain the level of income and employment by influencing investment are properly the focus of attention at the present time, but it is to be hoped that this will not lead to neglect of the problems of expanding consumption generally and of insuring minimum standards of adequacy in the consumption of necessaries by the lower income groups.

[22] *Demobilization of Wartime Economic Controls* (New York, 1944).

[23] Most of the basic issues with respect to the role of consumption are touched upon in the articles by Messrs. Hansen, Samuelson and Sweezy in *Postwar Economic Problems* (S. E. Harris, editor) (New York, 1943), and by J. H. G. Pierson in "The Underwriting of Aggregate Consumer Spending as a Pillar of Full Employment Policy," *American Economic Review*, Mar., 1944, pp. 21-55.

CONSUMPTION AS A FACTOR IN POSTWAR EMPLOYMENT

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I

One of the most carefully examined and widely accepted developments in economic theory of recent years is the line of argument which holds that the principal determinant of the volume of consumer expenditures in a private enterprise economy is the level of national income. Beyond that, it is commonly agreed that there is a functional relationship between national income and consumption which is highly stable over long periods of time. A natural outgrowth of this theory is the conclusion that consumption is a passive factor with respect to the quantity of employment, and that the really dynamic agent governing job opportunities is the amount of investment.[1]

Statistical analysis of the relationship between national income and the volume of consumer expenditures in the United States during 1919-40 does suggest that the average and marginal propensities to consume were highly stable for that period.[2] It also bears out the argument that consumption is a passive factor with reference to the quantity of employment. In spite of the evidence for 1919-40, however, it is dangerous to assume that the postwar consumption function will be essentially the same as the prewar function.[3] Nor is it certain, furthermore, that consumption after the war will be related passively to the amount of employment. The thesis of this paper is that powerful new factors which have developed during the war, as well as long-run forces which are gaining strength steadily, may require a drastic revision of con-

[1] For the most influential support of these ideas, see J. M. Keynes, *The General Theory of Employment, Interest and Money*, Book III, and A. H. Hansen, *Fiscal Policy and Business Cycles*, Ch. XI. It is fair to say that the employment theories of both of these men rest solidly upon their reasoning with respect to the "consumption function."

[2] See A. H. Hansen, *op. cit.*, pp. 250-260 ("A Statistical Analysis of the Consumption Function," by P. A. Samuelson); J. J. Polak, "Fluctuations in the United States Consumption," *Review of Economic Statistics*, Feb., 1939, pp. 1-12; E. W. Gilboy, "Income-Expenditure Relations," *ibid.*, Aug., 1940, pp. 115-121; "The Propensity to Consume," *Quarterly Journal of Economics*, Nov., 1938, pp. 120-140; M. Ezekiel, "Statistical Investigations of Savings, Consumption, and Investment," *American Economic Review*, Mar., 1942, pp. 22-49.

[3] This assumption has been made by most of the economists who have attempted to project the postwar volume of consumer expenditures out of any given national income. See, for example, J. L. Mosak, *Forecasting Postwar Demand* (Office of Price Administration, Sept., 1944, p. 7); H. C. Sonne, *A Preview of National Budgets for Full Employment* (National Planning Association, 1944) (Model F-1, pp. 6-7, does allow for higher consumption than in the prewar); E. A. Goldenweiser and E. E. Hagen, "Jobs After the War," *Federal Reserve Bulletin*, May, 1944, pp. 426-427 (some allowance is made for an increase in consumption over what would be expected under the prewar relationship); "Transition to Peace: Business in A.D. 194Q," *Fortune*, Jan., 1944, p. 83.

sumption theory in the postwar. My argument is designed to prove the following two points:

1. It is very likely that the average propensity of Americans to consume will increase markedly in the postwar over what it was in the period 1919-40. The marginal propensity to consume may likewise experience a considerable rise.[4]

2. Consumption may be a much more dynamic force in the postwar with respect to the creation of employment opportunities. That is, it may move much more independently of the level of national income than ever before.

This paper deals with consumption in the period following reconversion. It is concerned, therefore, with consumption as a long-run factor in employment. The reconversion period is brought into the picture only indirectly where it appears that consumption changes begun during reconversion may have a lasting effect. I make the assumption that by skillful action the federal government will avoid serious inflation for the remainder of the war and during reconversion. I would like to make it clear, finally, that my arguments are meant to be applicable for longer than the first several years after fighting stops. My position is that the postwar could witness a permanent expansion of sizable proportions in America's average propensity to consume, and perhaps in the marginal propensity to consume.

II

What are some of the factors which will contribute to a much higher average and marginal propensity to consume after our economy has returned to a full peacetime basis?

1. *The Accumulation of Vast Liquid War Savings by Individuals.* Something new has been added! A wartime phenomenon which has fascinated economist and layman alike is the speed with which individuals have piled up huge amounts of liquid savings during the war.[5]

[4] I employ the terms "average" and "marginal" propensity to consume in the usual sense. See Hansen, *op. cit.*, p. 227. The average propensity to consume may be defined as the percentage of any given aggregate income which the public desires to consume; the marginal propensity to consume means the proportion of an additional increment of income which the public wishes to consume.

[5] The Department of Commerce, the Federal Reserve Board, and the SEC have done an excellent job of calculating the magnitude of liquid savings amassed by individuals during the war. For very recent estimates, see the *Survey of Current Business*, Sept., 1944, pp. 7-8, the *Federal Reserve Bulletin*, Oct., 1944, pp. 953-961, and the Securities and Exchange Commission, Statistical Series, *Release No. 743*, Sept., 1944. Since these estimates reveal substantial agreement, the Department of Commerce figures will serve to show the size of wartime liquid assets accumulated by our people. From the end of 1939 to June, 1944, the savings of individuals, including unincorporated business, have amounted to about $100 billion, and it is estimated that they will exceed $115 billion by the end of 1944. *Survey of Current Business*, Sept., 1944, p. 7. Of the $100 billion up to June 1944, $72 billion were in the highly liquid form of currency, bank deposits, and war bonds; $22 billion went into insurance, housing and mortgage repayments, and liquidation of

Assuming that we defeat Germany by the end of 1945 and Japan a year later, the total liquid assets in the hands of individuals (not including unincorporated business) at the close of 1946 may very well amount to 100 billion dollars.[6] Of this enormous sum, existing evidence leads to the conclusion that perhaps as much as 60 billion dollars will be in the hands of persons receiving annual incomes of less than $5,000.[7] Several surveys by government and private postwar planning agencies indicate clearly that consumers do not intend to use their war savings in an orgy of spending during the first few years after the fighting ends.[8]

debt, and $6 billion represented the net increase in the holding of other government securities. *Ibid.*, p. 8. Allowing for a deduction of $20 billion as constituting the wartime savings of unincorporated business, the Department of Commerce arrived at the figure of about $60 billion as being the liquid savings accumulated by persons up to the middle of 1944. This figure is increasing rapidly and will continue to grow as long as the war lasts, although the rate of growth will undoubtedly taper off as we pass the peak of our war effort.

[6] Assuming that the 60% ratio (June, 1944) between the wartime liquid assets of persons and the aggregate savings of individuals and unincorporated business (see footnote 5) continues to hold until Japan's defeat, and further postulating that the $35 billion annual rate of growth of individual and unincorporated business savings prevailing in the first 6 months of 1944 will continue until Germany's fall at the end of 1945, individuals (not including unincorporated business) might be expected to hold about $91 billion of liquid assets by Dec. 31, 1945. If we allow for a decline in the rate of war savings by individuals and unincorporated business in the year after Germany's defeat, let us say to $25 billion, individuals might accumulate another $15 billion of liquid assets, making a grand total of $106 billion by the end of 1946. These calculations are very rough, but an estimate of $100 billion does not seem farfetched. How much of this sum will be "surplus" is very difficult to determine, for individuals normally hold larger amounts of liquid assets at higher levels of national income.

[7] Information as to how the wartime liquid savings of individuals are distributed among the various income classes leaves much to be desired. There is general agreement, however, that a large proportion of the savings are owned by people in the lower-income groups. Th Federal Reserve Board believes, for example, that on the basis of information reported for tax purposes and the amounts paid, about $45 billion of the wartime liquid savings of persons, or about 70% of the estimated total at the end of Sept., 1944, were in the hands of people with annual incomes below $5,000. "The Wartime Expansion of Liquid Assets," *Federal Reserve Bulletin*, Oct., 1944, pp. 957-958. S. M. Livingston pointed out in an earlier study that most of the wartime savings accumulated by individuals up to the end of 1943 were owned by persons whose incomes were less than $10,000 per year. "Wartime Savings and Postwar Markets," *Survey of Current Business*, Sept., 1943, p. 14. The House Special Committee on Post-War Economic Policy and Planning estimated that out of the $57 billion of wartime liquid savings accumulated by individuals up to June 30, 1944, over half belonged to persons with incomes below $5,000. *Fourth Report*, Sept. 8, 1944, p. 44. These national estimates are supported by a consumer survey conducted by the United States Chamber of Commerce which shows that persons receiving up to $4,000 per year have been saving heavily during the war. *Third Progress Report*, through Sept., 1943, pp. 11 ff. Another evidence that the lower income classes have accumulated much of the war savings is the fact that on a geographic basis savings have been very large in agricultural areas where incomes tend to be relatively low. See, E. C. Bratt and D. S. Wilson, "Post-War Sales Territories," *Survey of Current Business*, Dec., 1943, pp. 10-11.

[8] The results of a poll conducted for the National Planning Association in June, 1943, by the Office of Public Opinion Research show that of those persons who held war bonds, 11% planned to spend them as soon as the war ended, 73% intended to retain them "for a while," and 16% were undecided. *Public Thinking on Post-war Problems* (National Planning Association, 1943, p. 17). The desire to hold the bonds "for a while" after the war was found to be very strong for all the income groups interviewed. A War Production Board survey concerning the immediate postwar market for household appliances discovered that of those persons anxious to obtain appliances, only 18% said that they

Instead, they are counting on satisfying their deferred demands out of current income and installment credit. It is now quite generally agreed, furthermore, that the very nature of the liquid assets insures that al-

TABLE I

SHORT-TERM CONSUMER DEBT, 1939 THROUGH OCTOBER, 1944 (YEAR END FIGURES IN MILLIONS OF DOLLARS)*

	1939	1940	1941	1942	1943	Oct. 1944
Installment sale debt	2,792	3,450	3,747	1,494	816	743
Installment cash loan debt	1,559	1,984	2,174	1,438	1,123	1,197
Charge account sale debt	1,544	1,650	1,764	1,513	1,498	1,516
Single payment loans (open credit cash debt)	1,089	1,123	1,204	1,072	1,034	1,024
Service debt	534	560	610	648	687	732
Total consumer debt	7,518	8,767	9,499	6,165	5,158	5,212

* Material for this table was derived from the following sources: A. Slater, "Wartime Debt Changes in the United States," *Survey of Current Business*, July, 1944, p. 20, Table 6, and *ibid.*, Dec., 1944, p. S-15.

though they will change hands when spent, the aggregate will undoubtedly remain intact for at least the first few years after the war and may become a permanent part of Americans' liquid asset holdings.[9]

intended to spend their savings. *The Immediate Market for Appliances* (War Production Board, Sept., 1944, pp. 24-27). The remainder were planning to make their purchases out of current earnings or by use of installment credit. The results of a study conducted by the United States Chamber of Commerce indicate that only 25% of the families within the income classes up to $4,000 were saving for a specific purpose, and most of these were relying on installment credit to make their purchases. *Third Progress Report*, p. 18. The postwar markets study made in Albert Lea, Minnesota, shows that families at all income levels expect to pay for their postwar purchases largely out of current income and credit. *A Procedure for Community Post-War Planning* (United States Chamber of Commerce, 1943, pp. 16-17).

[9] See, for example, S. M. Livingston, "Wartime Savings and Postwar Markets," *op. cit.*, p. 16, and "Expanding Middle Income Markets," *Domestic Commerce*, May, 1944, p. 29; "The Wartime Expansion of Liquid Assets," *op. cit.*, pp. 959-960. There are only two ways in which the reduction of individuals' liquid assets may occur after the war: (1) if the federal government should retire its debt faster than private debt held by the banking system was being increased; (2) if persons were to employ their savings to pay off commercial bank loans faster than commercial banks were making new loans. The process of government debt retirement in the postwar is bound to be slow, with the prospects for budgetary surpluses quite remote. Even if the federal government should run surpluses in the first years after the war, these surpluses would be accompanied by business prosperity during which commercial banks would probably expand their loans at least as fast as the government retired its debt. With regard to the repayment of bank loans by individuals out of their war savings, this may be done to an important degree during the reconversion period. New business loans to finance reconversion are likely to offset any repayment of old loans by individuals, however. If individuals spend their war savings and business firms expand their holdings of liquid assets, this process would effectively reduce temporarily at least the liquid asset of persons. There is little chance that business firms will build up their liquid assets during reconversion. On the contrary, the expenditures required to carry out reconversion are so great that firms will probably be compelled to employ all of their liquid assets accumulated in wartime, and to borrow extensively from commercial banks to supplement their war-created reserves. The upshot of this discussion is, therefore, that although there may be drastic changes in the composition of the liquid assets, and although changes may occur in the distribution of the assets

It seems certain that the primary effect of this immense accumulation of liquid assets will be to induce Americans to spend an appreciably higher percentage of their current incomes for consumption than ever before.[10] It is logical to expect, furthermore, that with the great backlog of their war savings, people will be encouraged to spend a larger proportion of any additions to their current incomes. It is true, of course, that the increased holdings of liquid assets by the rich will probably have very little impression on their consumption habits. For the mass of people with incomes below $5,000, however, the effect of liquid war savings will undoubtedly be to exert a strong upward pressure on their consumer purchases. Their accumulated savings, normally relatively small, will have grown to gigantic proportions in their own eyes and will thus lead to a higher rate of consumption out of current

among the various income levels, the aggregate will be unimpaired for at least the first few years after the war. As a matter of fact, with heavy reconversion expenditures by business in a period during which many commodities may still be scarce, it would not be surprising if the liquid asset holdings of individuals continued to grow. But beyond the reconversion period, assuming that there are no large federal budgetary surpluses and that we are able to avoid a serious rise or fall in prices and to maintain high employment, I see no reason why wartime liquid assets cannot exert an effect on consumer expenditures for many years after fighting ends.

The experience with respect to the holdings of liquid asset by individuals during and after World War I supports the argument that these assets will not only be intact after the reconversion period but may actually increase substantially. Figures supplied by the National Industrial Conference Board show that the accumulated liquid savings of individuals, exclusive of security purchases, increased from $19.3 billion in 1917 to $24.4 billion in 1919. *Conference Board Economic Record,* Mar. 22, 1940, p. 109. In 1920 the volume of liquid assets in the hands of persons stood at $27.4 billion, and the amount grew steadily to $53.4 billion in 1930 before it experienced a decline in the early thirties. The Federal Reserve Board points out that during the two years ending June 30, 1919, individual and corporate holdings of currency, bank deposits, and government securities increased by $24 billion. "The Wartime Expansion of Liquid Assets," *op. cit.*, p. 954. In the decade following World War I the total amount of liquid assets held by individuals and corporations continued to grow, except during the brief recession of 1921-22. This resulted from the fact that during the twenties the continued expansion of private debt to banks more than offset the decline in public holdings of federal securities. By June 30, 1929, the aggregate liquid asset holdings of individuals and corporations were approximately $10 billion greater than on June 30, 1919, notwithstanding a reduction of about $9 billion in their holdings of federal securities.

[10] Early opinion inclined to the belief that wartime liquid savings would be spent during the reconversion period, thereby causing the threat of an inflationary boom. See, for example, H. Spero and J. A. Leavitt, "Inflation as a Post-War Problem," *Journal of Political Economy,* Aug., 1943, pp. 356-360, and S. H. Slichter, "Postwar Boom or Collapse," *Harvard Business Review,* Autumn, 1942, pp. 5-42. The predominant weight of judgment now subscribes to the view that after the war individuals will undoubtedly spend some of their wartime savings, but the bulk of these savings will be held for a considerable number of years after the fighting has ended. According to this line of reasoning, the main effect of wartime liquid savings in the postwar will be to give persons the "green light" to spend a considerably higher percentage of their current income than ever before, at the same time retaining the major part of their war savings. For an expression of this view, see E. A. Goldenweiser and E. E. Hagen, *op, cit.*, pp. 426-427; S. M. Livingston, "Wartime Savings and Postwar Markets," *op. cit.*, pp. 12 and 17, and "Can Business Sell a Capacity Output?" *Domestic Commerce,* Mar., 1944, p. 3; E. T. Weiler, "Spendable Funds, Post-war Markets," *ibid.*, Nov., 1943, pp. 11 and 25; *The Immediate Market for Appliances,* p. 26; W. S. Woytinsky, "Prospects of Permanent Full Employment," *International Postwar Problems,* Sept., 1944, pp. 510-511; *Survey of Current Business,* Sept., 1944, p. 8.

income or any additions to it. The desire to spend a higher percentage of current earnings will be especially strong until deferred demands have been satisfied, but the high-level consumption habits formed right after the war will tend to become a permanent part of the consumption pattern for Americans who are doing their saving during the war and are looking forward to the peace to enjoy the fruits of their wartime thrift.

2. *The Liquidation of Consumer Debt During the War.* In addition to the liquid savings which they have laid aside during the war, individuals have used war savings to reduce the volume of short-term consumer debt from its peak of 9.5 billion dollars in 1941 to about 5.2 billions at the end of October, 1944. Most of this decline occurred during 1942-43, with the aggregate leveling off in 1944.

The importance of the sharp reduction in consumer debt lies in the fact that it paves the way for a heavy and sustained expansion of consumer credit after the war. This expansion should do much to supplement consumer purchases out of current income. In the past installment buying has permitted low-income families "to live beyond their means" and has thus tended to offset the savings of higher income groups. All available information indicates that consumers are counting heavily on installment credit to finance their purchases of many different durable goods in the postwar. The effect of purchases out of consumer credit expansion will probably be strongest during the early postwar years. Since the increase will begin at a low level, however, it could continue for several years after the war. There is also the fact that purchases made out of installment credit raise the living standards of lower-income families and cause them to spend a higher percentage of their current incomes in order to retain their improved standards.

3. *The Wartime Population Shift from Agricultural Areas to Urban Centers.* The war has greatly accelerated the long-run tendency for our people to move from farms to urban areas. From the end of 1940 up to the middle of 1943 nearly 3,700,000 persons migrated from farms to urban industrial areas.[11] Some of these people will return to rural areas after the war, but the chances are that unless we experience severe unemployment a large majority will never go back to the farms. Beyond the sharp wartime decrease in our agricultural population, the long-run movement of people away from agriculture seems destined to persist after the war.[12] The significance for my argument of the permanent shift of a large part of the American farm population into

[11] F. R. Wilson, "Current Statistics Write Our History," *Domestic Commerce*, July, 1943, p. 3.

[12] The Bureau of the Census forecasts a continued decline in the number of farm families after the war. See, *Estimated Number of Families in the United States: 1940 to 1960*, Population Special Reports, Series P-1943, No. 2, p. 5.

urban areas during the war, as well as the prospects for a continued decline in the agricultural population, grows out of the fact that urban living is conducive to a much higher rate of consumer expenditures. The latest consumer purchases study of the Bureau of Labor Statistics and the Bureau of Home Economics shows that in 1941 farm families in all income classes had a much higher rate of saving than the same income-class families in the nonfarm category.[13] The median consumer unit among nonfarm families and single consumers saved 2.8 per cent of its money income in 1941, whereas the median consumer unit among farm families and single consumers saved 6 per cent of its money income. The wartime shift plus the continuing postwar movement from farm to city should have an important effect towards increasing the average propensity of our population to consume.

4. *The Introduction of New Products and New Ways of Spending Money.* As soon as reconversion has been completed, perhaps before, a flood of brand-new products will move onto the market. Among them will be new textile goods, new household appliances such as low-cost air-conditioning units, products made from plastics, and a host of other commodities. Inexpensive prefabricated houses may pave the way for an enormous volume of new supplementary consumer expenditures. Not only will new products make their appearance, but new models of established goods will soon become available as our economy progresses toward a full peacetime basis. Many of the new products and new models will "catch on" with the American public and lift our average and marginal propensity to consume.[14] There is no reason, moreover, why the development of eye-catching new products and new models should not be a regular part of our postwar market.

The postwar period will also witness the introduction of expensive new ways for the upper-income groups to dispose of their money. For example, increased personal ownership of airplanes by the wealthy, with all the supplementary expenditures required for private landing fields, hangars, and servicing the planes, may lead to an appreciable expansion in the propensity to consume of people who formerly were heavy savers.[15] Most experts are agreed that the helicopter is still not ready for the civilian market, but it offers great possibilities as an inducement to consumer expenditure in the not too distant future.

[13] *Spending and Saving of the Nation's Families in Wartime* (Bureau of Labor Statistics, Bulletin No. 723, 1942, p. 16, Table 7).

[14] For a recognition of this point, see L. J. Paradiso, "Retail Sales and Consumer Incomes," *Survey of Current Business*, Oct., 1944, p. 13.

[15] Dr. H. L. Dryden, aerodynamics expert at the National Bureau of Standards, expects to see a "very great development in civilian flying" after the war. See F. Connor, "Civilian Aviation of Future Visioned," *Domestic Commerce*, Dec., 1943, p. 15. W. Burden foresees the possibility that there may be 100,000 personal planes in service five years after the war, and annual sales may reach 50,000 personal aircraft. "Postwar Status of the Aircraft Industry," *Harvard Business Review*, Winter, 1945, p. 213

Other new outlets for increased expenditures by the higher-income groups may grow out of television, costly new appliances in homes, and the promotion of "week-end tourist trips" via luxury air-liners.

5. *The Postwar Emphasis on Selling the Public.* The end of the war will inaugurate the most gigantic sales promotion program in all of our history. All over the country sales promotion experts, advertisers, and consumer goods distributors of every description are giving themselves "pep talks" and are being given pep talks by government officials. These talks are all to the effect that after the war sales promoters must use every device at their command, and must invent new schemes, to induce the American people to part with their income for consumer goods.[16] The gist of the argument, which is widely accepted by people engaged in advancing sales, is that at the level of "full employment" after the war Americans will have an immense disposable income.[17] The task set for sales experts—a job which has fired their imagination—is to persuade Americans to part with a sufficiently high percentage of this huge disposable income for consumer expenditures to maintain full employment. There is no doubt that the postwar will witness an enormous growth in sales promotion. We may expect that producers, distributors, and advertisers will use every conceivable means to enhance the attractiveness of their products and to make them easier to buy. An intensified barrage of all the old techniques to induce the consumer to part with his dollar, as well as the introduction of many new tricks, should do much to increase the average and marginal propensity of our people to consume.

6. *The Long-run Effect on Consumption Habits of Deferred Demand*

[16] See, for example, H. C. Sonne, *op. cit.*, p. 13; S. M. Livingston; *Markets After the War*, p. 23, and "Can Business Sell a Capacity Output," *op. cit.*, p. 22; L. J. Paradiso, "Retail Sales and Consumer Incomes," *op. cit.*, p. 13; S. H. Slichter, "Jobs After the War," *Atlantic*, Oct., 1944, pp. 90-91; T. G. MacGowan, *A Pattern for Postwar Marketing*, a speech before the Midwestern Sales Conference, Nov., 1943 (mimeographed by the C.E.D.); C. Cloyes, "Stimulated Demand Is a Post-War 'Must'," *Domestic Commerce*, Nov., 1943, p. 3 ff.; "It's Time for Buyers' Market," *ibid.*, Feb., 1944, pp. 3-4; "Distributors' Stake in Transition Era," *ibid.*, Sept., 1944, p. 6 ff.

[17] Most estimates of full employment in the postwar run around 55 to 58 million jobs, depending upon the year chosen and the assumptions made. See S. M. Livingston, "Postwar Manpower and Its Capacity to Produce," *Survey of Current Business*, Apr., 1943, p. 14, and "The Measurement of Postwar Labor Supply and Its Capacity to Produce," presented before the American Statistical Association, Dec. 28, 1944; W. Haber, "Manpower and Employment Problems in the Transition from War to Peace," *Review of Economic Statistics*, May, 1944; E. E. Hagen and N. B. Kirkpatrick, "The National Output at Full Employment in 1950," *American Economic Review*, Sept., 1944, p. 482; E. A. Goldenweiser and E. E. Hagen, *op. cit.*, p. 425; H. C. Sonne, *op. cit.*, p. 4; J. L. Mosak, *op. cit.*, p. 2; Transition to Peace: Business in A.D. 194Q," *op. cit.*, pp. 84-85; K. L. Schlotterbeck, *Postwar Re-employment—The Magnitude of the Problem* (Brookings Institution, 1944), pp. 16 ff. Most of the above references also supply estimates of the gross national product at full employment in the postwar. The figure $165 billion expressed in 1942 prices (Livingston) is typical of the GNP estimates, although they vary depending on the price level chosen. Livingston's postwar disposable income figure of $124 billion (*Markets After the War*, p. 41) is the figure usually mentioned by sales promotion people.

Purchases. A great deal has been written about the vast size of deferred demand for consumer goods. It is estimated, for example, that there will be a pent-up demand for over 9 million passenger automobiles by the end of the war, and a sustained, full-capacity market for automobiles for several years after fighting stops. [18] The immediate postwar market for electric appliances is put at 1.2 billion dollars.[19] Residential housing is usually classified as an investment, but it likewise provides an excellent barometer of supplementary consumer expenditure for household appliances, furniture, and a host of other consumer goods. Most forecasts of postwar residential construction predict a a 6 to 8 billion dollar market for several years after fighting ceases.[20] Almost everyone who has studied deferred demand agrees that it will be spread over several years. This should provide a substantial upward push to the average and marginal propensity to consume for an extended period after the war. Beyond their direct effect during the first several postwar years, deferred demand purchases will undoubtedly have the profound long-run result of raising the living standards of millions of families. When the war ends many families will make their first purchases of homes, automobiles, refrigerators, and all the other durable goods. We may expect to see $2,500-income families equipping themselves in $5,000-income style, with the result that they will be forced to spend a larger part of their current incomes to maintain their improved living standards. The general rise in living standards, therefore, should lead to an increase in the average and marginal propensity to consume. It will create new consumption habits which will become a permanent factor in our postwar markets.

7. *A Postwar Tax Policy Favorable to a High Propensity to Consume*. Postwar federal tax policy is being widely discussed during the war, and it seems fair to presume that important tax revisions are in the making. The major objective of practically all the postwar tax-planners is to encourage risk-taking by private business entrepreneurs. An almost equally important goal, on which there is nearly universal agreement, is that the federal tax system must be designed to encourage high-level consumption.[21] The various plans are quite specific in their

[18] "Needed: Nine Million New Cars," *Fortune*, July, 1944.

[19] *Third Progress Report*, p. 2.

[20] *Loc. cit.*; H. C. Sonne, *op. cit.*, p. 6; J. J. W. Palmer, "Housing Appraised for the Post-War Era," *Domestic Commerce*, June, 1943, pp. 3-4; *Fortune Survey*, Dec., 1943, p. 16; G. Greer, "Housing: The Why of Planning," *Fortune*, Nov., 1944, pp. 146 ff.; A. H. Hansen, "The Postwar Re-employment Problem," *International Postwar Problems*, Dec., 1943, p. 35; A. Smithies, "Forecasting Postwar Demand," Memorandum for discussion, Econometric Society, Sept. 14, 1944, pp. 7-8 of mimeographed copy; S. M. Livingston, *Markets After the War*, pp. 16-17; "Transition to Peace: Business in A.D. 194Q," *op. cit.*; *The Market for Houses When Materials and Manpower Are Available*, Third Survey of Consumer Requirements Conducted Apr. 17-22, 1944, War Production Board, Office of Civilian Requirements, pp. 2-3.

[21] See, for example, H. M. Groves, *Production, Jobs and Taxes* (McGraw-Hill, 1944),

suggestions as to how risk-taking can be encouraged, but the means to promote consumption are still somewhat vague and back-handed.[22] J. K. Butters and R. A. Musgrave have recently pointed out the deficiencies in this respect.[23] President Roosevelt, in his annual message to Congress on January 6, 1945, stated that after the war "we must reduce or eliminate taxes which bear too heavily on consumption."[24] It is difficult to make any prediction about the postwar federal tax system, but revisions are in the offing and a fair guess is that it will be more conducive to high-level consumption than the prewar system.

8. *A More Equal Distribution of Income After the War.* The most important reason why the United States has had a high savings economy lies not in any "fundamental psychological law" but in its unequal distribution of income.[25] Budgetary studies such as those made in recent years by the Bureau of Labor Statistics and the Bureau of Home Economics demonstrate clearly that the rate of saving is positively correlated with the size of the income a person receives. Any postwar tendency towards greater equality of income distribution, therefore, would reduce savings and increase the average and marginal propensity to consume.

The best evidence available leads to the conclusion that the pattern of income distribution in the prewar was remarkably stable.[26] It is

pp. 93-94 and 104; *Postwar Taxes* (Twin Cities Research Bureau, Inc., 1944), p. 5; *A Postwar Federal Tax Plan for High Employment* (Research Committee of the C.E.D., 1944), p. 7; B. Ruml and H. C. Sonne, *Fiscal and Monetary Policy* (National Planning Association, 1944), p. 23; *Fourth Report of the House Special Committee on Post-War Economic Planning and Policy*, p. 39; "Taxes After the War," *Fortune*, Dec., 1944, pp. 121 ff.; M. S. Eccles, "Possibilities of Postwar Inflation and Suggested Tax Action," *Federal Reserve Bulletin*, Mar. 1944, pp. 225-226.

[22] Concrete recommendations are generally confined to the elimination of all excise taxes with the exception of the "big three"—tobacco, liquor, and gasoline. It is argued that they must be retained at about their 1943 rates because of their high revenue yield and ease of administration. Most of the planners, with the notable exception of the Twin-Cities group, are opposed to a federal retail sales tax. There is general agreement, moreover, that the personal income tax should be used as the principal revenue-yielder after the war. For most tax-planners this means lowered exemptions and a broadened base, reduced rates in the top-income brackets, but higher rates for the great majority of income recipients with savable surpluses. Lowered exemptions, of course, would impinge upon consumption.

[23] J. K. Butters, "An Appraisal of Postwar Tax Plans," *Harvard Business Review*, Winter, 1945, pp. 253-264; R. A. Musgrave, "Three Plans for Postwar Taxation," *Federal Reserve Bulletin*, Dec., 1944, pp. 1164-1165. For a recent plea urging postwar federal tax policy designed to encourage high-level consumption, see M. S. Eccles, "The Postwar Price Problem—Inflation or Deflation," *Federal Reserve Bulletin*, Dec., 1944, pp. 1158-1160. See, also, C. Shoup, "Three Plans for Post-War Taxation," *American Economic Review*, Dec., 1944, pp. 763-766.

[24] *New York Times*, Jan. 7, 1945, p. 33:4. See, also, the President's budgetary message to Congress, *ibid.*, Jan. 10, 1945, p. 17:6.

[25] On this point, see E. Gilboy, "Income-Expenditure Relations," *op. cit.*, pp. 116-117, and "The Propensity to Consume," *op. cit.*, pp. 138-140; H. Staehle, "Short Period Variations in the Distribution of Incomes," *Review of Economic Statistics*, Aug., 1937, pp. 133-143.

[26] An early study by the Brookings Institution reached the conclusion that during the period 1918-29 income had become more concentrated in the hands of a few, thus in-

likely, however, that federal tax policy in the postwar will be drawn up in a climate of public opinion hostile to great inequality in the distribution of income. More than once the judgment has been expressed by high-ranking government officials that a peacetime ceiling of $25,000 should be placed on incomes. Income distribution after the war, therefore, may move in the direction of greater equality. Such a development could exert a strong upward pressure on the average and marginal propensity to consume.

9. *The Effective Regulation of Monopoly in the Postwar.* It is generally conceded that one of the most important reasons for the concentration of income—and thus savable surpluses—in the hands of a small part of our population lies in the possession of monopoly privileges by a minority of our people. To the extent that monopoly is more effectively regulated after the war and monopoly profits are reduced, the volume of savings will decline and the propensity to consume will rise.[27] It is impossible to say with certainty what our federal policy with respect to monopoly will be after the war. It is also impossible to predict whether an antimonopoly policy, if it were pushed after the war, would be more effective than in the prewar. This much may be said, however. The Temporary National Economic Committee's investigation, with its great emphasis on the evils of monopoly, laid the foundation for a renewed federal effort to eliminate restrictive devices and to regulate monopoly. The war has interrupted this program, but it is reasonable to suppose that a strengthened federal antimonopoly policy will be launched after fighting ceases. There are promising signs, furthermore, that our government's international commitments may lead to a gradual reduction in our protective tariffs, thus striking at tariff-fostered monopolies. It is also fair to presume that the postwar will witness the construction of more regional power dams. One of the effects of these

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creasing America's propensity to save. *America's Capacity to Consume,* Ch. VIII. Later studies are in sharp disagreement with this conclusion. R. S. Tucker, for example, found that income concentration tends to increase in the upturn of a business cycle and to decrease in the downturn. On the whole, however, he pointed out that the concentration of income among persons with incomes over $10,000 had shown a decreasing trend from 1917 to 1934, and that persons receiving from $4,000 to $10,000 had become a larger proportion of the population after 1916. "The Distribution of Income Among Income Taxpayers in the United States, 1863-1935," *Quarterly Journal of Economics,* Aug., 1938, p. 586. An excellent recent study by A. J. Goldenthal, in which the concentration of income is measured by the shares of the income of all individuals received by the highest 2% and smaller proportions of the nation's income receivers, verifies Tucker's findings that concentration increases in the upturn and decreases in the downturn of the cycle. Goldenthal concludes, however, that for the period 1918-37 there was no significant trend in the distribution of income. *Concentration and Composition of Individual Incomes, 1918-1937* (TNEC Monograph No. 4, p. xi).

[27] For an excellent development of the argument that more effective regulation of monopoly will raise the propensity to consume, see T. J. Kreps, "Consumption: A Vast Underdeveloped Economic Frontier," *American Economic Review,* Feb., 1941, pp. 191-193, and M. Abramovitz, "Savings and Investment: Profits vs. Prosperity," *ibid.,* June sup., 1942, pp. 81 and 85.

governmental power projects is to reduce the energy rates of private companies and to increase the consumption of electric power. Perhaps an even greater result of the regional power dams is the growth of rural electrification. This development causes the thrifty farmers to part with a larger percentage of their incomes for such durable consumer goods as refrigerators, radios, washing machines, and electric stoves. Rising living standards in farm areas will reduce their large savings.

10. *The Postwar Effect of a Continued Low Interest Rate.* Our experience during the thirties indicates that the height of the interest rate is of much less importance in determining the supply of savings than classical orthodoxy would lead us to believe.[28] It may still be argued, however, that with many other factors in the postwar working to decrease saving and to raise consumption, a continued low interest rate may contribute towards reducing savings and lead to a higher average and marginal propensity to consume, especially among the upper-income classes.[29] It is impossible to forecast how the interest rate on long-term loans will move after the war, but it is apparent that with our federal debt amounting to about 300 billion dollars, the government will have a tremendous incentive to employ all its powers to keep the interest rate at a low level.

11. *Reduced Working Hours.* There is no reason to believe that the postwar will bring a reversal of the downward trend in the length of the work-week.[30] On the contrary, the American people will probably move towards a 35-hour work-week in the early postwar. The significance of this trend is that it provides greater leisure and thus opportunity for the consumption of recreational goods and services.[31] This factor should contribute strongly to a growth of the recreational and service industries in the postwar.

12. *The Postwar Expansion of Our Social Security Program.* A large part of the saving of families and single individuals grows out of their desire to provide for a rainy day. To the extent that a stronger and broader social security program in the postwar protects Americans against a loss of earning power through unemployment, old-age, and disability, our people will undoubtedly use a larger percentage of their current income, or any additions to it, for consumption.[32] The same

[28] For a strong argument to the contrary, see G. R. Holden, "Mr. Keynes' Consumption Function and the Time-Preference Postulate," *Quarterly Journal of Economics*, Feb. 1938, pp. 281-296.

[29] Hansen admits that the continuation of a low interest rate may lead gradually to a change in the consumption function. *Fiscal Policy and Business Cycles*, pp. 248-249.

[30] See, S. M. Livingston, "Postwar Manpower and Its Capacity to Produce," *op. cit.*, p. 13.

[31] E. Gilboy, "The Propensity to Consume," *op. cit.*, p. 139.

[32] The importance of a social security program as a factor increasing the propensity to consume has been noted often. See, J. L. Mosak, *op. cit.*, p. 14; J. R. Beattie, "Some

effect will be achieved by public health insurance, increased public assistance to old people and dependent children, and federal grants for educational purposes.

It is true that individuals save through the pay roll taxes deducted for old-age and unemployment insurance. Under the broad government plans, however, the aggregate volume of saving needed to obtain a given amount of security is less than the sum Americans would tend to save if they sought the same protection against insecurity on an individual basis. There is little likelihood, moreover, that savings channelized through the social security program will fail to be retained in the income stream due to government hoarding.

All indications point to a greatly extended social security program after the war. As a matter of fact, a substantial amount of expansion may take place before the war ends. G. R. Friedman and W .H. Wandel, of the Social Security Board staff, have urged that the following recommendations with respect to unemployment insurance should be put into effect before reconversion starts: (1) workers for small employers, maritime workers, government employees, and farm laborers should be included, (2) the duration of benefits should be increased to twenty-six weeks, and (3) maximum weekly benefit payments should be raised to $25.[33] The House Special Committee on Post-War Economic Policy and Planning has made similar recommendations.[34] The Social Security Board has placed itself on record in favor of a much broader program of social insurance and public assistance.[35] The lengthy report of the National Resources Planning Board's Technical Committee on Long-Range Work and Relief Policies has also recommended the broadening of our social security and public assistance programs.[36] M. S. Eccles has recently urged that the federal government should underwrite and guarantee "a national minimum of income, education, health and old-age security for all citizens."[37] In his annual message to Congress Presi-

Aspects of the Problem of Full Employment," *The Canadian Journal of Economics and Political Science*, Aug., 1944, pp. 336-339; H. C. Sonne, *op. cit.*, pp. 13 and 15; "Transition to Peace: Business in A. D. 194Q," *op. cit.*, p. 194; L. J. Paradiso, "Retail Sales and Consumer Incomes," *op. cit.*, p. 13; M. S. Eccles, "Possibilities of Postwar Inflation and Suggested Tax Action," *op. cit.*, p. 226; M. Ezekiel, "An Annual Estimate of Savings by Individuals," *Review of Economic Statistics*, Nov., 1937, p. 187; A. H. Hansen, *Fiscal Policy and Business Cycles*, pp. 248-249; E. Gilboy, "The Propensity to Consume," *op. cit.*, p. 139.

[33] "Unemployment Compensation Goals in the Reconversion Period," *Social Security Bulletin*, Sept., 1944, pp. 6-10. For a similar recommendation, see C. H. Danhoff, "Compensating Transitional Unemployment," *Survey of Current Business*, Dec., 1944, pp. 12-17.

[34] *Fourth Report*, pp. 24-29.

[35] *Eighth Annual Report of the Social Security Board*, 1943, pp. 1-45; A. J. Altmeyer, "Social Security for Farm People," *Social Security Bulletin*, Apr., 1943, pp. 3-5, and "The Desirability of Extending Social Security to Employees of Nonprofit Institutions, *ibid.*, Aug., 1944, pp. 4-5.

[36] *Security, Work, and Relief Policies*, 1942.

[37] "The Postwar Price Problem—Inflation or Deflation?" *op. cit.*, pp. 1159-1161.

dent Roosevelt pointed to the pressing need for "an expanded social security program and adequate health and education programs."[28] There is little doubt that after the war Americans will have their own Beveridge Plan which will relieve their sense of insecurity and increase their propensity to consume.

13. *The Changing Age-Composition of Our Population.* Because of a steady decrease in the birth rate and a reduction in the death rate of persons in the early and middle years of life, the American population is growing old. This trend toward an older population is shown by

TABLE II

ESTIMATED NUMBER OF PERSONS AND PERCENTAGE OF POPULATION IN SPECIFIED AGE GROUPS, 1945–2000*

Year	Assumptions: medium fertility medium mortality, no immigration†				Assumptions: low fertility, medium mortality, no immigration†			
	45–64		65 and over		45–64		65 and over	
	Number (000)	% of population	Number (000)	% of population	Number (000)	% of population	Number (000)	% of population
1945	28,211	20.4	9,920	7.2	28,211	20.5	9,920	7.2
1950	30,135	21.0	10,926	7.6	30,315	21.2	10,926	7.6
1955	32,183	21.7	12,250	8.3	32,183	22.0	12,250	8.3
1960	34,279	22.6	13,598	9.0	34,279	23.1	13,598	9.2
1965	36,508	23.0	14,725	9.0	36,508	23.7	14,725	9.9
1970	38,847	24.7	15,880	10.1	38,847	25.8	15,880	10.6
1975	40,029	25.1	17,109	10.7	40,029	26.7	17,109	11.4
1980	39,565	24.6	18,501	11.5	39,565	27.0	18,501	12.4
1985	39,323	24.3	19,783	12.3	39,323	27.0	19,783	13.5
1990	39,935	24.8	21,096	13.1	39,782	28.0	21,096	14.8
1995	40,842	25.4	21,546	13.4	40,154	30.0	21,546	15.9
2000	41,756	26.2	21,016	13.2	40,031	30.0	21,016	15.8

* The data for this table were taken from W. S. Thompson and P. K. Whelpton, *loc. cit.*
† For an explanation of these assumptions, see *ibid.*, pp. 5–28.

these changes in the median age of our people; in 1800 it stood at 16 years, by 1900 it had risen to 23 years, and in 1940 it was 29 years.[29] Thompson and Whelpton predict a continued rise so that under medium assumptions of fertility and mortality the median age would stand at 37 years by the end of the century. They also predict that under the assumptions of low fertility, medium mortality, and no immigration, the number of persons 65 years old and over will rise from 9,920,000, or 7.2 per cent of the population in 1945, to 21,016,000, or 15.8 per cent of the population by the year 2000.

The significance for my argument of the increasing age of the Ameri-

[28] *New York Times*, Jan. 7, 1945, p. 33:3. See also, the President's budgetary message to Congress, *ibid.*, Jan. 10, 1945, p. 17:7.

[29] W. S. Thompson and P. K. Whelpton, *Estimates of Future Population of the United States, 1940-2000* (National Resources Planning Board, 1943), p. 32.

can population lies in the fact that old persons tend to *dissave,* not to save. This development should, therefore, have an important general effect towards raising the average propensity of Americans to consume.

The fact that our population is becoming older leads to the advent of a dissaving era in the life insurance industry. We are all aware of how phenomenal the growth of life insurance has been, and how great a volume of saving has been carried out by individuals through the life

TABLE III

TWO ILLUSTRATIONS OF BENEFIT PAYMENTS AND TAX INCOME OF THE FEDERAL OLD-AGE AND SURVIVORS INSURANCE AND TRUST FUND, BY QUINQUENNIAL YEARS, 1955–2000 (BILLIONS OF DOLLARS)*

Year	Low assumptions†		High assumptions†	
	Benefit payments	Tax income‡	Benefit payments	Tax income‡
1955	0.9	2.1	1.2	3.3
1960	1.2	2.1	1.7	3.3
1965	1.5	2.2	2.2	3.4
1970	1.9	2.2	2.7	3.4
1975	2.3	2.2	3.9	3.4
1980	2.6	2.2	3.9	3.4
1985	2.9	2.2	4.6	3.4
1990	3.1	2.2	5.3	3.4
1995	3.2	2.2	5.8	3.4
2000	3.2	2.2	6.1	3.4

* This entire table is taken from "Actuarial Factors in Old-Age and Survivors Insurance," *Social Security Bulletin*, Apr., 1944, p. 14, Table 9. See, also, D. C. Bronson, *Old-Age and Survivors Insurance 1943–44 Cost Studies* (Social Security Board, Office of the Actuary, 1944).

† The "low assumptions" refer to the estimates of population growth published in the 1935 *Report to the President of the Committee on Economic Security* (United States Government Printing Office), p. 68, Table 13. The "high assumptions" refer to the "medium" estimates of population growth made in the National Resources Committee's 1938 report, *The Problems of a Changing Population.*

‡ The tax income is calculated on the basis of a 6% pay roll tax.

insurance companies.[40] With the declining birth rate and fewer young people becoming insurance prospects, there is bound to be a slowing down in the growth of life insurance in force. As an increasingly greater percentage of our population consists of old people, moreover, a larger proportion of the existing policies will mature and the annual number of deaths per 100,000 insured lives will tend to rise. With a decline in premium payments to life insurance companies and an increase in benefit payments by them, the net savings of life insurance policy-holders will gradually disappear and the reserve funds will enter an era of dis-

[40] Life insurance in force increased from $16.4 billion in 1910 to $111 billion in 1938, and the assets of life insurance companies rose from $3.9 billion in 1910 to $27.8 billion in 1938. G. H. Gesell and E. J. Howe, *Study of Legal Reserve Life Insurance Companies* (TNEC Monograph No. 28), p. 9. The annual net savings of policy-holders in life insurance during 1935-40 averaged $1.67 billion. P. Geren, "The Contribution of Life Insurance to the Savings Stream," *Journal of Political Economy*, Feb., 1943, p. 34.

saving.[41] The aging of our population leads to dissaving by life insurance companies in another way. More persons who have been building annuities and retirement income policies will move into the dissaving period of such policies. Paul Geren, who has made a careful study of the effects of our aging population on life insurance, estimates that net life insurance savings will never again be greater than the 1.67 billion dollar average they reached in the latter half of the thirties and they may very well fall to zero around 1960.[42]

The trend toward an older population will also lead to an era of dissaving by the Old-Age and Survivors Insurance Fund. Recent actuarial estimates of the Social Security Board show that, assuming a 6 per cent pay roll tax, the net savings of the Fund will diminish rapidly up to about 1975, after which time the benefit payments will exceed the tax income and the Fund will dissave.[43]

The tendency for our population to grow old, therefore, is an exceedingly important factor leading to dissaving in our postwar economy, especially by legal reserve life insurance funds and the Old-Age Insurance and Survivors Fund.

The question now arises, has the United States ever before in its history experienced a sharp rise in the average propensity to consume? Information on this problem is meager because none of the established series of disposable income, consumer expenditures, and individual savings have been carried back to the period preceding World War I. Almost every one of the studies analyzing the functional relationship between national income and consumer expenditures covers a period beginning in 1919 or later. Hansen, for example, analyzed the data from 1921 to 1939 and found a remarkable degree of stability in the average propensity to consume, so that in all prosperous years about 88 per cent of the national income was spent for consumption and 12 per cent was saved.[44]

A recent valuable study by Louis J. Paradiso of the Department of Commerce provides us with information about the average propensity to consume during 1910-20 as compared with 1921-40.[45] Using data drawn from a number of sources, he made two important observations. First, the average propensity to consume in 1910-20 did not continue into the twenties and thirties. Instead, an abrupt upward shift occurred,

[41] A. H. Hansen, who attached so much importance to the automatic and rigid nature of life insurance savings, recognized that eventualy life insurance would enter upon a period of dissaving. *Fiscal Policy and Business Cycles*, pp. 238-239.

[42] *Op. cit.*, pp. 47-48.

[43] "Actuarial Factors in Old-Age and Survivors Insurance," *Social Security Bulletin*, Apr. 1944, pp. 14-15.

[44] *Fiscal Policy and Business Cycles*, pp. 237-238. A statistical appendix by P. A. Samuelson bears out his calculations (pp. 250-260).

[45] "Retail Sales and Consumer Incomes," *op. cit.*, pp. 12-13.

TABLE IV

INCOME PAYMENTS, CONSUMER EXPENDITURES, AND NET SAVINGS OF INDIVIDUALS, 1910–1940*
(billions of dollars)

Year	Income payments to individuals†	Personal taxes and nontax payments‡	Disposable income of individuals	Consumer expenditures**		Net savings of individuals††	
				Amt.	% of disposable income	Amt.	% of disposable income
1910	29.9	.6	29.3	25.0	85.3	4.3	14.7
1911	30.2	.6	29.6	24.6	83.0	5.0	17.0
1912	32.3	.6	31.7	27.8	87.7	3.9	12.3
1913	34.2	.6	33.6	28.7	85.4	4.9	14.6
1914	34.2	.6	33.6	27.6	82.0	6.0	18.0
1915	35.2	.6	34.6	29.7	85.8	4.9	14.2
1916	41.2	.8	40.4	35.1	87.0	5.3	13.0
1917	50.3	.9	49.4	40.7	82.4	8.7	17.6
1918	58.5	1.6	56.9	45.7	80.0	11.2	20.0
1919	63.0	2.0	61.0	49.8	81.7	11.2	18.3
1920	68.9	2.1	66.8	58.0	86.8	8.8	13.2
1921	56.8	2.1	54.7	51.4	94.0	3.3	6.0
1922	58.6	1.9	56.7	52.3	92.2	4.4	7.8
1923	68.1	2.2	65.9	58.3	88.5	7.6	11.5
1924	68.9	2.1	66.8	59.4	88.9	7.4	11.1
1925	72.8	2.2	70.6	63.4	89.8	7.2	10.2
1926	76.4	2.4	74.0	66.7	90.1	7.3	9.9
1927	76.6	2.5	74.1	66.6	90.0	7.5	10.0
1928	78.1	2.7	75.4	68.1	90.3	7.3	9.7
1929	82.6	3.0	79.6	70.8	89.0	8.8	11.0
1930	73.3	2.6	70.7	64.9	91.2	6.2	8.8
1931	62.0	2.4	59.6	54.2	90.9	5.4	9.1
1932	47.4	1.9	45.6	43.0	94.3	2.6	5.7
1933	46.3	1.8	44.5	42.8	96.0	1.7	4.0
1934	52.9	1.9	51.0	47.7	93.6	3.3	6.4
1935	58.6	2.3	56.3	52.2	92.7	4.1	7.3
1936	68.1	2.9	65.2	59.1	90.6	6.1	9.4
1937	72.4	3.1	69.2	62.5	90.0	6.7	10.0
1938	66.2	3.3	62.9	58.5	93.0	4.4	7.0
1939	70.8	3.1	67.7	61.7	91.1	6.0	8.9
1940	76.2	3.3	72.9	65.7	90.0	7.3	10.0

* The data employed in this table were supplied to me by L. J. Paradiso. They are the basic data he used in making chart 6 in "Retail Sales and Consumer Incomes," *op. cit.*, p. 12.

† These figures were derived from the following sources. Estimates for 1919–40 are figures of the National Income Unit, Bureau of Foreign and Domestic Commerce. The figures for 1919–28 are based on Kuznets' aggregate payment to individuals adjusted to National Income Unit's concepts. The figures for 1910–18 are based on an index of nonagricultural income payments developed by the Bureau of Agricultural Economics. Also, the index of agricultural income payments developed by the Business Statistics Unit of the Bureau of Foreign and Domestic Commerce was employed.

‡ The estimates were derived as follows: 1929–40—National Income Unit, Bureau of Foreign and Domestic Commerce; 1910–18—state and local taxes are based on total state and local tax data, *Tax Yields*, 1941; federal taxes on a calendar year basis were derived from fiscal year Internal Revenue collections.

** The estimates were derived as follows: 1929–40—National Income Unit; 1919–28—based on H. Barger, *Outlay and Income in the United States, 1921–1938;* 1910–18—1909 and 1914 were based on W. H. Lough's (*High-Level Consumption*) estimates of consumers' outlay. Other years were interpolated by regression between consumer expenditures and industrial production inflated by the cost of living index.

†† Disposable income minus consumer expenditures.

so that consumer expenditures for the same amount of disposable income were generally about 5 billion dollars higher in the years after 1920 than during 1910-20.[46] The ratio of savings of individuals to their disposable income declined from an annual average of 16 per cent in 1910-20 to an annual average of 9 per cent in 1921-40. Paradiso's second observation is that despite the rise in the average propensity to consume after the last war, the marginal propensity to consume remained about the same over the entire period from 1910 to 1940, so that an increase of 10 billion dollars of disposable income resulted on the average in an addition of 8 billions in consumer expenditures.[47]

III

Most theorists agree that consumption is a *passive* factor with respect to employment. Presumably this argument would not be invalidated by a substantial increase in the average and marginal propensity to consume after the war. There are solid grounds for believing, however, that the aggregate of consumer expenditures may move much more independently of changes in disposable income after the war than ever before.

I have already indicated that individuals will hold an enormous amount of liquid assets in the postwar, perhaps as much as 100 billion dollars. These liquid assets, which by their very nature are not going to vanish quickly from domestic markets even if spent, represent a vast supply of stored-up income which could serve to break the past reliance of many of our people on current income for their consumer purchases.[48] In other words, during any postwar upturn in business the expenditure by individuals of wartime accumulated assets might conceivably act to increase consumer spending at a rate faster than the expansion of disposable current income. During a downturn of business the expenditure by individuals of these assets could serve as a stabilizer by maintaining consumer purchases above the level of consumer income. It is impossible to assess the importance of wartime accumulated liquid assets as a potential force towards increasing the independence of consumer expenditures in the postwar, but it seems likely that such a force will exist.

IV

The conclusions to be drawn from my argument may be stated briefly. Many powerful factors will be operating in the postwar to lift the average propensity of Americans to consume, and probably their

[46] *Ibid.*, p. 13.
[47] *Ibid.*
[48] For agreement on the argument made here, see "The Wartime Expansion of Liquid Assets," *op. cit.*, p. 958, and W. S. Woytinsky, "Prospects of Permanent Full Employment," *op. cit.*

marginal propensity. Some of these forces (for example, the existence of liquid assets accumulated by individuals in wartime and the potential postwar expansion of consumer debt) may wear themselves out after exerting their maximum effect in the first postwar decade. On the other hand, many of the other factors will be gathering strength and should have their greatest effect in raising the propensity to consume during the sixties and seventies and thereafter. Outstanding among these is the aging of our population, with the resultant dissaving of life insurance and old-age insurance. There is reason to believe that with the staggered effect of these forces, high-level consumption may well become a permanent characteristic of our economy. Beyond that, for the first decade at any rate the existence of wartime accumulated liquid assets should create the tendency for consumer expenditures to move more independently of current income payments than ever before.

The implications of a high-level consumption economy are of great significance. For one thing, induced investment would become a much stronger force towards providing job opportunities than in the prewar. The possibility of a sharply reduced percentage of disposable income going into savings by individuals, despite the fact that corporate savings might remain high, suggests the need to re-examine carefully whether permanent federal deficit finance will be nearly as essential after the war to provide full employment as it may have seemed in the thirties. It is not within the province of this paper to discuss postwar private investment opportunities, but with a lower percentage of individual saving and therefore greater induced investment, and in view of the prospects of federal tax revision designed to encourage private risk-taking and the possibility of large foreign investment by Americans after the war, the question might be raised: Is our problem in the postwar going to be one of saving outrunning investment opportunities at the level of full employment? Or might not postwar saving be inadequate to meet the demand for investment funds?

DISCUSSION

S. Morris Livingston: One of the major questions confronting economists and businessmen today is whether consumption plus private investment after the war will provide markets for a national output which at least approaches the full utilization of the labor force. There is no need here to summarize the opposing arguments.

The pessimistic view draws much of its substance and conviction from the intensity and duration of the last depression plus the slow and faltering recovery prior to the stimulus of wartime demands. That depression focused attention on problems which had received too little attention up to that time and thereby resulted in a considerable advance in economic theory. There is danger, however, that in the search for eternal truths there may be too much generalization on the basis of conditions which were peculiar to the decade before the war.

The optimists agree with the emphasis on the problems of full employment but they argue that one depression, however severe, does not warrant sweeping conclusions about the stagnation of a mature economy. They hold that the ending of the war will leave conditions peculiarly favorable to business expansion just as the conditions in the previous decade were unfavorable.

The arguments sometimes take on a doctrinaire tinge. In one direction the fear that active government intervention to assure full employment will be inimical to the free enterprise system has led to a minimizing of the need for such action. In the other direction a strong belief in the desirability of government planning has led to a pessimistic view of postwar possibilities without such action.

Professors Boulding and O'Leary seem to be on opposing sides of this controversy. In his excellent paper on the consumption concept, Boulding states categorically that "there is a persistent tendency for production to be larger than consumption plus preferred investment." To him "it is clear that accumulation cannot proceed forever. The day must come, in the course of economic development, when income can grow but capital cannot." He speaks of "the dreadful shadow of the stationary state."

This is strong language. Business cycles may bring recurring periods of decumulation of both consumers' and producers' capital but there is little reason to suppose that the point will ever be reached when further secular increases in income and consumption will not involve some further increase in capital.

It is difficult to visualize a time when the consumer's store of goods will be so large that he will have no desire for further additions to this inventory in order to enjoy the use of the additional goods. Consumer wants appear inexhaustible. The only limits on consumption are the incomes of consumers and the opposing desire to save part of that income as protection against future contingencies. Increased consumption, particularly of durable and semidurable goods, involves increased consumer inventories of those goods.

The time when the working population of this country will cease to increase

is still decades away. When that point is reached there will still be need for additional productive capital so that there shall be continued growth in output per worker. A less extreme position, however, would still leave the question whether consumption plus capital formation will absorb a high national output after the war.

Professor O'Leary addresses himself to the consumption phase of this question. Presumably, he would not disagree with Boulding's definition of consumption as "the destruction of commodities in the way in which they were intended to be destroyed." He has adopted, however, the familiar expedient of discussing consumption in terms of consumer expenditures. While theoretically less desirable it has the practical advantage that we have some statistical measurement of expenditures.

He lists thirteen "factors which will contribute to a much higher average and marginal propensity to consume after our economy has returned to a full peacetime basis." Those factors could be grouped logically in three categories.

The first includes those secular influences which operated before the war and presumably will continue. Any extrapolation of a simple regression, relating aggregate expenditures to aggregate disposable income in the immediate prewar period, misses the point that the postwar income will be divided among more consumers. By 1948 there will be about 10 per cent more families than in 1940. The same total income which would have provided a high per capita income and therefore large savings before the war will mean somewhat lower per capita income and somewhat lower savings after the war.

There is also a secular increase in the ratio of expenditures out of a given income per capita. The explanation is simple. Over a period of years the American standard of living, using the more precise meaning of that phrase, has been rising. Goods and services, which a generation ago were either nonexistent or considered as luxuries, are now generally recognized as necessities. This rising standard makes it more difficult for the consumer to forego current expenditure in order to save for future contingencies.

As O'Leary points out, this trend is manifested in the appearance of new products and in the merchandising effort which has made those products part of the American way of life. It has been augmented by the shift of population from farms to communities where living standards typically are higher, and by reduced working hours thereby providing more leisure for consumption.

The secular trend has been expressed by Arthur Smithies in the formula: Consumer expenditures per capita in 1929 dollars = 76.58 + .76 (disposable income per capita in 1929 dollars) + 1.15 (time—1922). This equation is fitted to the data from 1923 through 1940. The coefficient of correlation for this period is .97. The relationship was distorted during the first World War but the same equation gives values approximating Louis J. Paradiso's estimates for the immediately preceding years. Smithies says that it also closely approximates Kuznets' estimates of consumption back to 1884.[1]

[1] Arthur Smithies, "Forecasting Postwar Demand," to be published in *Econometrica*.

It is obvious that such a secular trend exists. The slope of a simple regression, fitted to total expenditures and disposable income between the two World Wars, is such that if it were extrapolated back to the much lower levels of income in earlier years it would call for negative savings even in prosperous years.

The second category includes those factors resulting from the war. First in importance is the huge accumulation of liquid assets by consumers which will have an important bearing on how they spend their current income after the war. There is also the liquidation of consumer debt.

In addition, the war may have accelerated the secular trend toward increased standards of living and therefore increased propensity to consume. It would be well, however, not to count too much on "a flood of brand new products." The development of new industries is notoriously unpredictable.

A number of economists have, in fact, cited the reverse of this latter argument as reason for a pessimistic appraisal of the postwar outlook.[2] Full utilization of the postwar labor force means a national output roughly half again as large as in 1940. Expansion of that magnitude is obviously impossible in terms of prewar products and prewar expenditure patterns. Looking beyond the first bulge of deferred demand it is difficult to visualize the new products, or new markets for old ones, which can make it possible.

The third category reflects the conviction, or the hope, that the nation will do a better job of managing the economy after the war than before. According to O'Leary, the national income will be distributed more evenly, thereby putting more into the hands of those who are inclined to spend rather than save. Social security will be expanded, thereby reducing the need to save. Monopoly will be regulated more effectively. Business will do a better job of finding and exploiting potential markets. It will produce more desirable products and merchandise them more effectively. The tax system will be more conducive to high level consumption. Interest rates will continue low. He might have added that any practical assurance against prolonged, widespread unemployment would also encourage the consumer to spend more freely.

The first of these three categories is susceptible of approximate measurement. The second is quite possibly more important, but it is also imponderable. We can cite impressive statistics as to the huge accumulation of liquid funds in the hands of consumers. There is little room for doubt as to the direction of their influence. But we cannot measure the resulting increase in the propensity to consume. We do not know whether it will be only a minor factor, or whether it actually poses the threat of inflation. The third category is even more intangible. The three add up, however, to a strong probability that the propensity to consume will be appreciably above the prewar period.

The general acceptance of the goal of full employment and the general recognition of public responsibilities in that connection are not yet matched by any general understanding as to how that goal should be achieved. It is a

[2] See, for example, Gunnar Myrdal's address on "Economic Developments and Prospects for America" before the National Economic Society of Sweden, particularly page 16 of the translation by the National Planning Association.

complex problem calling for a high order of industrial statesmanship. There must be an honest desire for effective action, but there must also be a pratical and sympathetic appreciation of the operation of a free enterprise economy.

Whether we are concerned with the stagnation of a mature economy or merely with the recurrence of severe depressions, there is obvious need for exploration of the practical possibilities and implications of alternative courses of action. Refusal to face the possible need for action simply invites hastily contrived panaceas to meet contingencies if or as they arise. Too great reliance on a particular course of action also courts future trouble if that solution proves inadequate.

In this connection it is important to recognize, as does O'Leary, that the consumption function can be a dynamic force with respect to postwar employment opportunities. If the increase in the consumption function does not measure up to his high expectations, then the half-dozen factors which I have grouped in the third category are also, by implication, a possible program for business and government policies designed to increase consumption.

JOSEPH J. SPENGLER: A distinguished American economist, now passed to a more tranquil world, upon being queried why he had not said more of consumption, remarked that he had said little because there was little to say. In recent years more has been said of "consumption" than ever before; yet much of it, while possibly suited to guard the consumer against rhetoricians and purveyors of half truths, has been innocent and irrelevant. It is good, therefore, to find this subject again receiving the attention of able economists even as it did in the day of J. B. Say who devoted Book III of his *Traité* to it.

Professor Boulding provides us with an operational definition of consumption, production, and capital (or stock pile) formation. That which flows out of the "bathtub" represents consumption;i.e., destruction or removal from the state of being. That which flows into the tub represents production. That which remains in the tub represents the accumulated capital, or stock pile. The difference between the increment of inflow and the increment of outflow represents the addition (positive, zero, or negative) that is made to the stock pile per interval. Accordingly, the rate of production is governed by the rate of efflux and by the rate of stock pile formation. If either of these rates falls, and this fall is uncompensated by the increase of the other, the rate of production necessarily falls; if both these rates fall, that of production must decline. Given the rate of consumption, or efflux, the rate of production, or influx, can exceed that of consumption by no more than the increment which, in the time interval in question, is added to the stock pile.

Except for certain details, presently to be noted, I take no exception to Professor Boulding's analysis, as such. What he has presented us with, however, is not really an analysis of *consumption* but a discussion of certain phases and sundry determinants of *economic flow*. His "bathtub" approach is a flow approach in even greater measure than that identified with the name of Keynes.

We are concerned today with both the broad problem of economic flow, and the lesser and included problem of consumption, for we realize that we must face questions which did not bother the classical economists. What makes Sammy run? What is the economic *primum mobile?* Is it consumption or production, or something else? What accelerates or decelerates this *primum mobile?* These questions did not trouble Say or Ricardo. They took it for granted that production, whose volume was conditioned largely by prior productive consumption, automatically generated sufficient consumption, productive and unproductive, to absorb whatever was produced. "No man produces, but with a view to consume or sell. . . . Give men but the means of purchasing and their wants are insatiable." So wrote Ricardo. Men needed only to attend to production and its increase if they would improve material welfare; economic flow and consumption would take care of themselves.[1] We of today know by experience that this is not so.

A theory is useless unless it raises questions that are appropriate and relevant, and that can be formulated in such manner as to permit their solution. A theory of consumption can meet this test only if it is developed out of a broad and inclusive theory of economic flow. We must first discover the manner in which and extent to which production is regulated by economic flow. We must determine, second, what are the constituent elements of post-production economic flow. His approach is useful, Professor Boulding notes, in that it directs attention to neglected determinants of economic flow; namely, consumer stock piles and business inventories. I take it that he would imply we must also discover the other constituents of economic flow, their behavior tendencies, and their interconnections.

Of these constituents of economic flow, consumption is but one, albeit the most important. How does consumption respond to changes in purchasing power? By what socio-psychological circumstances is consumption shaped? Do the economic changes underway indicate the necessity of an ever greater amount of collective, as distinguished from individual, consumption? In what measure is collective consumption susceptible of supply by private enterprise? In questions such as these consists the field of consumption as such.

To certain details of Professor Boulding's paper exception may be taken. For example, an increase in the consumer inventory of shirts, with consumption and the business inventory of shirts remaining as before, can push up production only during the time interval required to supply this increment. Again, is it true under all circumstances that there is no reason why we should consume more, or less, at a low general level of prices than at a high level? Given psychological and all other adjustments to a low general level, this supposition appears valid. It will not hold, following a drop in prices, until practically all recipients of income have learned to appraise it and allocate it in terms of the new level of prices, and thus have become adjusted

[1] I treat of these and related questions in two essays now in preparation. They have to do with Keynesianism and Physiocracy and with certain aspects of the theory of consumption.

to the new level of prices. Following a rise in prices, a similar period of adjustment is called for. In like manner, following a rise or fall in prices, supply does not become independent of the general level until an analogous adjustment has taken place.

Professor Boulding's phrasing suggests that whatever renders consumption less necessary to the pursuit of living is as much an economic gain as is any improvement in the field of production. This statement is valid in the sense he apparently intends it. But it is not universally valid. Unqualified, it implies that we may profitably seek economic gain by donning the hair shirt of the anchorite, or by squatting alongside St. Simon Stylites on his pillar.

It may be objected too that the thesis, developed by Professor Boulding in the closing paragraphs of his paper, whether or not tenable, does not follow directly from the matter preceding. Perhaps economic ankylosis impends. Perhaps what Lotka has aptly called "pernicious orthogenesis" threatens the economic as well as the biological survival of man. Even so, it may pay him to hesitate before making his deathbed repentance.

EDWIN G. NOURSE: Despite the allurements of "scholarly" exposition, trick vocabularies, and impressive mathematical notations, I am disposed to feel that that concept of consumption which is simplest is best. Thus I believe Professor Boulding is moving in the right direction in his apparent acceptance of Marshall's definition of consumption as "the destruction of commodities—i.e., of valuable things—in the way in which they were intended to be destroyed." But instead of going clear back to the simple common sense of Adam Smith's concept of consumption as the subjective satisfactions of the consumer, his definition intentionally embraces a dualism of final and productive consumption which involves him in some of the darker corners of recent obscurantism that menace the advance of economic understanding. In a sense, of course, iron is intended to be destroyed in making machines and machines to be destroyed in making shoes. But in a broader and truer sense, it is only labor-product that is destroyed, in the whole sequence of production processes from the most roundabout to the most direct and for the sole purpose of giving ultimate consumer satisfaction.

The word "destruction," however, does not fit very well with the consumption of services. And, since it would be absurd to talk of a stock pile of services, and since this category of consumption is so large and presumably growing in importance, Professor Boulding's suggestion that the stock pile should become a central factor in our consumption theory seems less persuasive. And even as applied to physical goods, the view that production is necessary only "in order to replace the stock pile into which consumption continually gnaws" is to me a distinctly unsatisfying concept of production. There is no real stock pile of fluid milk, fresh fruit and vegetables, style goods, or in fact a considerable portion of the varied commodities that move through our markets. Inventories are either accumulations forced into existence by the unavoidably seasonal character of production or are made an object of independent interest and economic activity as a vehicle of market

speculation. Whenever possible, consumption makes contact directly with production, and consumers' inventories, to which Boulding attaches great importance, are only an operational incident of consumption itself. The idea of the stock pile being a functionally important or even controlling factor in the economic process and consumption being merely a "gnawing" into that stock pile seems to me a confusing rather than clarifying concept.

In fact, I find no way of connecting a definition of consumption as destruction of commodities through the uses for which they were produced with the theorem of a bathtub equipped with faucet and drain pipe. The water in the tub is consumed—that is, its utilities exhausted—there and not in the process of passing down the "waste pipe" to the sewer. It is the impounded stock and not the flow which is the whole purpose of a bathtub and the hydraulic system of which it is a part. Different volumes in the reservoir are appropriate to different purposes or individual users, and it is the volitional activity of an outside party that adjusts rate and time of inflow, volume of impounded supply, and time of partial or complete withdrawal. One cannot conceive of a stock pile of baths nor, in any sanitary and well-regulated household, a stock pile of bath water. It is normal for a bath tub to be completely empty most of the time, with inflow securely shut off and the outlet pipe unused—all phenomena which would be fatal to the operation of an economic system.

If one must stick to hydraulic metaphor, it would be a good deal better to talk about a tank used for an industrial purpose, where the level of the water was kept constant by an automatic hydrostatic device. Had Professor Boulding used that simile, I would still challenge the implication that in the economic process the size of the stock pile *governs* the rate of production or inflow—though it would of course have an influence on it through the thought and actions of persons in positions of control.[1]

All in all, I would be disposed—except on grounds of delicacy—to substitute for Mr. Boulding's bathtub theorem a theorem derived from organic rather than mechanical analogy; to wit, an "alimentary canal theorem." There are obvious shortcomings to such a theorem but also the merit that it focuses attention on the fact that consumption is both an end in itself and a means toward continuous implementation of the process of further production, out of which further and, so far as possible, expanded—but not exclusively gastronomic—consumption is to be provided. The particular point is that neither such productive activity nor consumptive enjoyment can be sustained

[1] Perhaps he would have done better to make the simile that of an irrigation or hydro-electric system where a great deal of concern is manifested as to the optimum adjustment of the level in the reservoir to a considerable number of conditions which are outside the control of the supervisory agents—such as drought or flood, seasonal requirements of crops, demand for industrial electric current, or what-not. Here the adaptive and adjustive role of the several functionaries would be to the fore, as it should be in any analysis of the economic process. But the analogy would be faulty in that neither the needs of users nor the judgments of administrative agents could have any influence on the rate of the rainfall through which the flow into the reservoirs was determined. It is defective also in that the height of the water in the reservoir would not have any effect on the flows, which (mediated by the thinking of the interested parties) it unquestionably does have in the economic process.

on a healthy and normal basis unless ingestion is followed, with relatively small lag or variation, by a continuous process of digestion, assimilation, and elimination of wastes.

In Professor Boulding's exposition, I find a disturbing confusion between stock pile in the sense of inventories incidental to the smooth operation of an elaborate system of production and market distribution, and stock pile in the sense of accumulation of a fixed capital appropriate to "the state of the arts" and the full utilization of that capital. In the main, however, it is the latter with which he is concerned, and this is, I agree, a central problem of modern capitalistic society.

It is obvious, as he points out, that devastated Europe after the war will have its rate of consumption dictated in considerable measure by the need to reaccumulate fixed capital as rapidly as possible if it is to restore and eventually better its prewar scale of consumption. But he rightly observes in the next paragraph that such a situation, in which it is necessary to constrict the drain pipe (not automatically, but by human volition) in order to fill the reservoir, is a less characteristic difficulty of modern industrialism than the inability to persuade the custodians of the reservoir to enlarge the useful outlet of the water rather than allowing it to pile up to the point where the hydrostatic control mechanism throttles down the pump that feeds the inflow pipe.

Professor Boulding regrets that from Ricardo onward attention was shifted from further analysis of consumption as a dynamic factor in the economic process to consideration of production and exchange. To me there seems adequate historic explanation of this fact. During the late eighteenth, the nineteenth, and early twentieth centuries, consumption and capital formation pretty generally kept up with America's capacity to produce—and that of other countries. The emphasis on thrift or self-denying consumption as a means of building up the production potential was obvious. It was important also that attention should, during that period, be directed strongly toward study of the processes of market exchange and income distribution as the mediating institutions between production and consumption if the two were to be kept harmoniously advancing. But when Professor Boulding turns his attention to those control devices that lie between production and consumption, he seems to be concerned to formulate natural laws of automatic control rather than to examine their volitional aspects, as economic phenomena requiring better understanding and more intelligent action. He cites the automatic price making of the wheat market to show that size of the stock pile is the prime consideration and that it has powers of automatic control. He is vague about market situations more characteristic of modern industrial society where price and volume of output are correlated by an administrative executive and the stock pile has little chance of acting as a control mechanism. In this situation, the stock pile does not influence production through market price, though inventory or capacity figures are looked to by the price administrator as an indicator or guide to action. As to the action which he takes to maintain a desired level in the reservoir, it is likely to be through restriction

of inflow of product though it might be through price action or sales effort designed to enlarge the outflow.

The price factor is treated by Professor Boulding in the gross terms of "inflation" and "deflation," not in the refined terms of a personally guided adjustment process. The conclusion to which his analysis leads him is that price reductions distributed generally throughout the system do not stimulate production and that "low-price policy" is no aid toward maintenance of employment. This issue is much too broad and fundamental to be discussed here. I shall, however, hope to address myself to it at a later time.

A very broad implication of the matter, however, is brought out in the question that Professor Spengler raises. Is it production or consumption which is the prime mover in the economic process? In a primitive society it is obvious that consumption is the prime mover, and no amount of institutional sophistication can completely rob it of this character. In an advanced industrial society, however, the motive power of consumptive desire is considerably overshadowed by motivation which springs from the side of profit-seeking production, in which profit-making is, within limits, enhanced by production restriction. This situation has brought about much current confusion in economic thinking and in business and governmental action. Under an ideal institutional set-up operated by fully intelligent beings, the desire to consume would find its balance with the processes of production at the point where the several individuals preferred more leisure to more goods. Under an ideal institutional setup operated by fully intelligent beings, the controls, a great many people are disposed to divert undue amounts to providing for their own uncertain future or for the acquiring of financial control over the actions of others, while yet a major fraction of the population are constrained to consume much smaller quantities than their labor would be capable of producing if consumptive desire and productive capacity could be directly coupled. This situation sets the stage of current research, institutional reform, and operational education.

Professor O'Leary's paper, with its concrete, particularized, and short-run analysis, affords an interesting and stimulating companion piece to Professor Boulding's inquiry into the general theory of long-run consumption factors and forces. He challenges the theory widely accepted in recent years "that consumption is a passive factor with respect to quantity of employment" and that the level of national income (independently derived) is its chief determinant. With this dissent I am in full accord. With his thesis that "powerful new factors developed during the war as well as long-run forces . . . may require a drastic review of consumption *theory* during the postwar," I am somewhat less in agreement. No doubt the *facts* as to consumer spending will show considerable changes in the postwar period. But I fear we may see only a brief Indian summer of abnormally favorable market conditions, not any real solution of the problem of maintaining private employment in an advanced capitalistic society. It does not follow from the admitted prospect of brisk spending after the war that the basic pattern of economic behavior will have undergone a like change or that those who write economic theory will "drastically" change their formulations.

It would be easy to classify Professor O'Leary's thirteen reasons for expecting change in the consumption pattern into two broad classes, one of which would embrace relatively short-lived and nonrecurring factors and the other those of a more fundamental and permanent character. Thus the mere fact that during the war many people paid old debts and acquired liquid savings which put them in possession of ready cash for postwar spending and in a position to go in debt again through new borrowing and the re-establishment of installment credit does not mean that a permanent change in the propensity to consume has been established. Professor O'Leary expresses confidence that the stimulative effects of the savings factor would last at least ten years and its supporting role in the market then to be taken over by other aids to free spending. For myself I see a distinct possibility that it may be largely exhausted in a much shorter time, without a full equivalent taking its place. The quick dissipation of these reserves would promptly put the mass of consumers back in the hand-to-mouth position which has given us the low propensity to consume which contributed to the prewar problem of unemployment. We cannot eat our cake and keep it too. Perhaps we should fear depletion of the ordinary consumer's liquid reserves after the war more than the building up of consumer inventories, as Boulding suggests.

Turning to the other class of postwar factors, change in age distribution, shift from rural to city residence, and the habit-forming character of free spending suggest deep-seated change, particularly when linked with the establishment and broadening of social security provisions and the growth of a socio-political philosophy that favors various sorts of income supplements paid by government to large groups of the economically distressed. Least impressive to me among Professor O'Leary's list of factors presaging drastic permanent change are the "introduction of new products and new ways of spending money" and "postwar emphasis on selling the public." It seems to me that the steady march of new products and use of high-pressure efforts to sell them have been strongly characteristic of the very period in which stability of the "propensity to consume" has been marked.

On the other hand, one point overlooked in both papers is that the formal pattern of this alleged propensity may remain perfectly stable as 88-12 or any other point and yet the actual situation as to consumption undergo significant or even drastic change as a result of changes in the relationships of the prices of commodities, prices of labor, and prices of capital use. No one can say in advance whether a 12 per cent ratio of savings would prove to be the optimum for full utilization of the labor force and competitive prices of the product. This will depend on the technological efficiency of the plant reconverted from war use and of subsequent accretions of capital goods. Nor can one tell in advance whether our people, confronted by such a changed set of price relationships would materially depart from the 88-12 ratio and, if so, whether the new ratio vis-à-vis the technological efficiency of new capital dollars would prove to be too high or too low.

Thus, while I am fully in accord with Professor O'Leary's skepticism as to this propensity to consume or to save being stable, I think much more searching analysis should be given to the significance of any such statistically

derived ratio. All this belaboring of factual data to yield an arithmetical ratio seems rather bootless in view of the fact that the figure itself might remain substantially unchanged while the actual level of consumption underwent significant or even extreme fluctuations. People do not eat or wear or listen to dollars or percentages. If a given cash income or given fraction of the wage or salary check buys more goods because their unit prices are lower, consumption will be raised without any change in money income or any loss in the amount or percent saved or any alteration in the statistically derived "propensity to consume." That percentage is the husk, not the reality of consumption.

What allocation of current income would be needed to produce the best sustained flow of consumer goods and services must remain determinable only in the school of unfolding experience. But we should have a better theoretical grasp of the dynamic and responsive role of consumption in the total economic process if we are to observe that unfolding experience intelligently and analyze it usefully.

As I see the issue of economic theory and action relating to consumption as a factor in the complete economic process, it runs something as follows: (1) Can the private administrators of business find more flexible and more responsive means (through adjustment of price relations) of allowing literal propensity to consume to express itself in productive labor? (2) What institutional arrangements are in need of modification in order that individuals and organizations on both the labor and the capital side may more readily and perfectly effect these high-consumption adjustments? (3) Can the residual and to some extent ineluctible deficiencies in this process of private adjustment be overcome or offset through action of government in underwriting minimum consumption standards at levels compatible with our productive potential? If such action were taken, it would imply an economic theory that consumption is still the prime concern if not the prime mover in tne economic process and that social action, in some degree to be experimentally determined, is necessary to complement even the best voluntary action of men in the market that we are likely to attain in the near future. It would, however, be a functional supplementation of private arrangements and activities, not a superseding of private business in operational areas.

EXPANDING CIVILIAN PRODUCTION AND EMPLOYMENT AFTER THE WAR

OBJECTIVES AND GUIDES TO POLICY

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This paper, as its title would indicate, is concerned with two problems. The first is the quantitative statement of objectives for our postwar economy. The second concern is with policies to be formulated to be guides to action. Action in turn is taken to be the means or method that is used to secure the desired objective. For the postwar period the problem of a satisfactory economy—measured by the levels of employment and output—is going to be extremely difficult.[2] In a rather fundamental way this is very considerably due to the great and persistent rise in productivity of the American working man and to the fact that our labor force is much larger—because of natural growth and the fact that in most of the thirties from 6 to 10 million were unemployed. We wish to do better after the war. If we are to succeed we shall require the full measure of assistance of every group that is a component of our nation and its economy. Success is not to be won by any single group—private or public—being held responsible for it. The best efforts of all will be required and these efforts must be put forth with unity. But in the process some action will be required by the government which has two functions to perform: first, to define the nation's objectives so clearly that all may adhere to them; second, to fix the rules of play for the economy. An excellent illustration is available in the Trade Agreements Act of 1934 which stated broad objectives and laid down broad policies that were to be followed by the authority selected to administer Congress' mandate. In this paper the attempt is

[1] The opinions expressed in this paper are wholly personal and these opinions are advanced to further fruitful economic discussion of the technical problems discussed by the panel of which this paper is one.

[2] It could perhaps be suggested that there is but one major objective for the postwar economy. But there can be other objectives. They can and should embrace points to be achieved to permit the conquest of unemployment by *general* measures. There also can be as well negative objectives such as the avoidance of planning either in fulsome detail or "at any price." This has been well put by Hayek: "That no single purpose must be allowed in peace to have absolute preference over all others applies even to the one aim which everybody now agrees comes in the front rank: the conquest of unemployment. There can be no doubt that this must be the goal of our greatest endeavor; even so, it does not mean that such an aim should be allowed to dominate us to the exclusion of everything else, that, as the glib phrase runs, it must be accomplished 'at any price.'" (*The Road to Serfdom*, p. 206.) This is again emphasized by Hayek together with the necessity for increased output when he says: "The one thing democracy will not bear without cracking is the necessity of a substantial lowering of the standards of living in peacetime or even prolonged stationariness of it economic conditions." (P. 210.)

made to define in quantitative terms as many as possible of the objectives that are suggested. The requirement that additional objectives shall be similarly quantitatively stated is accepted. The further requirement that all objectives so stated shall be harmonious and neither antagonistic to each other nor mutually exclusive in achievement is also accepted. Upon such statement of five objectives, attention is turned from such goals to the guides to action that are the implementation or means by which objectives are to be achieved.

I. *Objectives for the Postwar Economy*

1. The first objective suggested is *a gross national product* in an amount of 165 billion dollars at 1942 prices to be achieved initially upon completion of reconversion and thereafter freely to respond in harmony and consonance with the extent to which the remaining four objectives are achieved. This objective, of course, is desirable to provide a large enough tax base to preclude the necessity of tax rates that would have such retarding effects upon the economy as to make any similar objective impossible to secure. More fundamentally, because of our social philosophy today, it is desirable because only such a high level of output can permit us both to use our resources efficiently and productively and to employ our labor force reasonably adequately.

2. *A level for the cost of living* that is nearly as *constant* as possible with the guide to action to secure such stability to be so formulated that stabilization powers shall become operative with any variation in the cost of living of a magnitude between 5 and 10 per cent from the initial base for which the 1942 level is suggested. Action could possibly be discretionary upon the occurrence of a change of 5 per cent and perhaps more definitive upon a change of 10 per cent. The area for discretionary action could permit testing the adequacy of the available remedial action and could provide the equivalent of a buffer period for determining whether or not additional powers are required. It is obvious, of course, that this objective is suggested in part out of the experience with wage stabilization in which in a sense the area of discretion has been quantitatively defined; e.g., the Little Steel Formula.

3. *The employment objective* for the postwar might be quantitatively stated as the desire to attain and reasonably well maintain a labor force employment of between 55 and 60 million accordingly as more careful measurements may indicate what the precise figure should be. With allowance made for net additions to the labor force and with allowance for rather regular frictional or transitional unemployment—perhaps 5 per cent of the total labor force—guides to action could be so formulated (as in the case of price stabilization) as to permit discretion in using stabilization powers with provision that these powers might

become definitely employed with total unemployment in the labor force approaching some larger figure for which 10 per cent is suggested. But it would seem most desirable that action in the areas that secure or induce a greater volume of positive investment should be the kind of action upon which most dependence should be placed. In this way the volume of employment would respond to such general kinds of action and not in itself be directly promoted (job underwriting) except in most unusual circumstances.

4. Another objective for the postwar economy should be *to increase productivity*. Productivity could be expressed as the amount of gross national product (at constant prices) per employed member of the labor force. Here what is urged—at least in the first postwar years—is a high rate of gain in productivity. The reason for this is that only with such a high rate of productivity increase can we possibly advance the fifth objective as one that can be reasonable of attainment. It is a settled wage policy over a longer-run future, one that can induce the smoothest possible transition from wartime, through the transition, to a durable peacetime wage policy.

Subject of course to formulation with that precision that could reasonably be called measurement, it is proposed that the "objective" rate of increase in productivity for the first peacetime decade be placed at not less than 30 per cent for the entire economy (GNP) and perhaps as high as 50 per cent for the two special areas of manufacturing and construction. In all of these areas a rate of increase, perhaps twice as great in the first five years as in the second five years of the decade is urged. Recently Professor Slichter indicated the attainability of a goal of 275 billion dollars for gross national product by 1970 on the basis of a productivity increase of but 15 per cent per capita in ten year periods and that in the decade of the twenties the increase was no less than 30 per cent.[3]

The purposes of securing national agreement upon some such increase in productivity are twofold:

First, to alleviate to some extent the many doubts as to whether or not the postwar fiscal problem is solvable. Given a peaceful world, the question of attainment of the objective should result more widely in an affirmative answer.

Second, to secure the one sound basis upon which to build a rational postwar wage policy. (See 5 next below.) Given such an objective in productivity as the fundamental basis for a wage policy, to which both labor and mangement might dedicate themselves in the public interest, a common solvent is found for what otherwise unavoidably would be mutually antagonistic positions in this important area—and positions

[3] As reported in the *New York Times*, Nov. 13, 1944.

that could cause great difficulty in the transition period when great patience is required until reconversion is complete.

Such an objective for productivity in the first decade after the war, if judged by past experience, is not unrealistic. For the past four years per capita agricultural productivity has risen 40 per cent or at an average rate of 10 per cent each year.[4] A similar rate was reached by industry for at least each of three years following the last war. After this war industry will have available many wartime-developed techniques and will have in prospect rather great certainty of adaptation of its processes to a much higher level of output (in considerable part because we have done so much better with both productivity and prices in this war) so that productivity increases in the first five years naturally should very substantially exceed the more permanent later annual increases that we should expect to equal those achieved in the past by a progressive economy.

5. The final objective suggested is to secure for the first postwar years *a settled wage policy*. This should be built upon the foundation of objectives 1 to 4 above. These are a large postwar gross national product (1), at constant prices (2), steadily increasing according to the well-maintained employment of the labor force (3), working in co-operation with management so that productivity is very substantially increased (4), to make possible settlement upon a wage policy (5) which aims as nearly as possible to maintain weekly take-home pay at levels close to those prevailing during the war, and to the extent not maintained to be restored to such levels no less rapidly than productivity is increased (with the change to be measured by percentages of gain from a selected base year).

The importance of securing united agreement with respect to this fifth objective can be approached by first recognizing that the great problem of the transition period will be to steer an even course between inflationary use of wartime incomes and accumulated savings (liquidity) and having unsettling air pockets develop in the current flow of purchasing power as the result of a sharp decrease in income payments.

The prospects on the side of price deflation seem to the writer to be greater than the prospects for price inflation. The balance on the deflation side is struck because of expectation that the anticipations on the side of business and the public generally are much less hopeful that we can continuously utilize our total resources than that, though we may in the "catching-up" period immediately after the war see a

[4] The index of volume of agricultural production (1935-39 = 100) rose from 110 in 1940 to 134 in 1944; the average annual number of people fourteen years old and older employed in agriculture fell from 9,268,000 to 8,086,000 (Bureau of Agricultural Economics and *Labor Force*).

tendency for purchasing power to outrun goods supply, we shall have over the longer run a goods supply that will outrun purchasing power at the given constant price level.

If this judgment is reasonable it is worth while, in order to consider the quantitative importance of a settled wage policy, to indicate that a decline (air pocket) of 15 to 18 billion dollars will develop in total pay rolls with a return from the wartime tempo of output to peacetime employment of the normal (57 million) labor force *but with no reduction whatever in labor rates per hour.*[5]

The fact that such a reduction by itself could lower the net national income of 159 billion dollars in 1944 to the postwar objective of 140 billions does not take into account a possible reduction of 5 billions in the net income of agriculture, another such reduction of 5 billions in net corporate income and the income from property (interest, rents, and royalties). This would result in a reduction in the net national income to 130 billion dollars which is still exclusive of any decline either in *prices* (except only for agriculture whose cash marketings have been but one-eighth of the net national income) or in wage *rates* (double-counting of course is to be avoided). Were the decline in either of these factors—wage rates and prices—even of a small order, the prospective national income would be reduced to 120 billion dollars—if not even less, and the question is: Are we not somewhere along this downward course of reductions, declines, losses, and decreases in danger of becoming hurried into a downward spiral of severe depression and collapse (the national income already having been assumed to decline from 159 to 120 billion dollars in the transition)?

It was probably this type of reasoning stated in such facts as "in 1920 some $15,000,000,000 in income were shut off with the closing in plants and reductions in working hours" (the national income in 1919 was only about 68 billion dollars as compared to 159 billions last year) and "there were 100,000 bankruptcies and a 44 per cent drop in industrial pay rolls" that led Mr. Charles E. Wilson, former Executive Vice-Chairman of the War Production Board and now again President of General Electric Company, to suggest a postwar wage policy. It was: "After the war is won take-home pay on a forty-hour week basis must *eventually* represent the higher level of earnings that now prevail."

[5] Against this prospective decline there is to be considered the *pari passu* decline in output that would reduce the supply side of goods corresponding to the decline in wage income. But if price controls are even only fairly well maintained in the transition period well into the catching-up period then the forces of increasing supply as catching up demand tails off would seem inevitably to induce lower prices. This tendency could, of course, be offset by vigorous encouragement of new forms of investment to supersede the heavy catching-up production of consumers' durables. These might include urban redevelopment, for example, but its present prospect is unclear.

(Italics supplied.) In answer to the question: "How do we propose to earn and justify these higher wages?" Wilson said: "By *increased production*, of course . . ."[6] (Italics supplied.)

In its Postwar Program of April 12, 1944, the American Federation of Labor said on these matters: "During the war wage earners have contributed increased productivity to the war effort without compensation by increases in wage rates. Justice therefore requires that they return to normal hours without *material* change in weekly earnings" and pledged "unreserved co-operation necessary for full employment" including "*review and revision of rules and practises which were developed to protect workers in a depressed and severely fluctuating economy.*" (Italics supplied.)

If the words "review and revision of rules and practises . . . developed to protect workers in a depressed . . . economy" may be interpreted to mean positive approval of changes that enlarge productivity, and if inclusion of the word "material" in the phrase "without material change in weekly earnings" was not just gratuitous, the wage policy of the American Federation of Labor appears to be not very different from the wage policy proposed by Mr. Wilson. In fact, with respect to maintenance of weekly take-home, the one (Wilson) aims at achieving it "eventually" and to achieve it by improved productivity; the other (the A. F. of L.) has the same aim but it uses the word "material" rather than the word "eventually"; and it also endorses improved productivity. These differences between the aims of a great labor organization and a great industrialist in being not very far apart reveal great unity in current thought from quarters that are, so to speak, usually expected to be on the opposite sides of the wage bargain.

Thus, five objectives to which postwar economic policies are to be geared have been proposed:

1. *Gross national product*—initial objective 165 billion dollars; to be relatively stabilized but at a rising trend level because of increased productivity (see 4 below).

2. *Prices*—cost-of-living to be stabilized with discretion to use stabilizing powers upon a 5 per cent change and with action to be taken or request made for additional powers upon a 10 per cent change.

3. *Employment*—objective to be employment at a level between 55 and 60 million gainfully employed including frictional unemployment but including present members of the armed services. Stabilizing action to be discretionary when unemployment rises by an amount equal to 5 per cent of the labor force, and more vigorous action to be taken when unemployment rises by another 5 per cent.

4. *Productivity*—objective to be a 30 per cent increase in produc-

[6] Quotations from *New York Times*, Nov. 5, 1944.

tivity (rise in gross national product per person gainfully employed); two-thirds of this increase to be achieved in the first five years. Productivity in manufacturing and construction to be increased by 50 per cent in the first postwar decade, and for construction one-half of this productivity increase to be achieved by a reorganization of the industry.

5. *Wage policy*—the objective to be settled wage policy which will secure the full co-operation of labor toward increased productivity and efficiency in return for the undertaking by management in the first five years after the war (or sooner) to provide weekly take-home pay for a forty-hour week equal to such pay during the war.

In concluding upon the matter of objectives for the postwar economy, it should be emphasized that the greatest of these is attaining the maximum unity from the American people. There is no objective that possesses like importance. Progress is being made toward it.

In suggesting objectives, each should be quantitatively stated; e.g., gross national product, 165 billion dollars; prices, 100 per cent of base period (1942-44), employed labor force, 57,000,000; productivity increase, 30 per cent in first decade for entire economy and 50 per cent in manufacturing and construction; wage policy, to aim within five years to secure not less than wartime weekly wages for the peacetime forty-hour week.

These objectives are consistent each with the other and there is as well mutual interdependence among them. In addition to the objective the guide to policy and action (in the limited area that is usually termed "timing") has been suggested. The general rule here would be, when the suggested type of objective has been definitively stated with proper final qualifications, to permit action to be discretionary upon a variation of 5 per cent, and action to be definitive, or additional powers and action recommended, upon a variation of 10 per cent.

The remainder of this paper deals with guides to action and policy. In making the suggestions, the qualities "specificity" and "quantitativity" continue to be sought.

II. *Guides to Policy*

1. With respect to gross national product two objectives have been implied: the first, securing a high level for the postwar national product, and the second, stabilizing as far as can be possible such postwar levels for the national product. After securing the immediate postwar objectives of a gross national product of 165 billion dollars, the guide to policy might well be to have positive action applied when there develops a prospective decline of 5 or 10 per cent from the objective figure. Action upon a decline in the current rate of national

output by such a percentage would, on the basis of the declines from 1929 to 1932, certainly prove to be somewhat anticipatory in the sense that action would have been taken early had such a rule been in effect in 1929. In another sense such action would not be anticipatory. That is, such action should probably be taken even when there is advance, but at a diminishing rate (in the national product). But the public can more easily understand why action is recommended if there is a decline but not if there is the more puzzling phenomenon of a slowing down in the rate of advance.

The implementation of the policy of sustaining the gross product can be manifold. Since the "areas" within which the remaining objectives, other than for the national product, run in terms of prices, labor force, productivity, and wages, most measures affecting in one way or another the volume of current purchasing power may be considered to implement the policy of maintenance of reasonable stability in the gross national product. This is because it is not purchasing power expansion per se that should be the remedial action. Rather what is wanted is positive action to expand output and improve productivity in order to increase a third factor—purchasing power—to assure absorption of the greater output. To enlarge and stabilize the gross national product three types of measures can be proposed, but it should be emphasized that there are no doubt many other measures that would also be helpful. But what seems important now is to adopt some measure while studying every additional set that can be helpful.

The first proposal is that the construction industry—that is that jointly all groups having interests in it or its product—shall advance plans for its outturn to be stabilized within annual limits that are appropriate to the objective amount of the gross national product. For a gross national product of 165 billion dollars, private construction would be appropriate at an amount of perhaps 14 billions about equally divided between (a) commercial, industrial, and business construction, and (b) residential construction.[7] To implement this proposal it may be suggested that there be agreement by all parties to try to stabilize dwelling-unit construction at 1,000,000 units a year.[8] In return for assistance to stabilize at this volume, the industry, especially its labor and management, should co-operate to reduce costs by some substantial amount such as 25 per cent in return for assurance of effective plans to supplement, when needed, the private volume that is secured (and expected to be very substantial) with publicly assisted housing construction and such other forms of assistance as the suggested inquiry

[7] Based on S. M. Livingston, ***Markets After the War*** (Department of Commerce).
[8] See particularly, ***Postwar Planning for the Construction Industry*** (The Producers' Council).

and co-operation would reveal to be desirable and of course essential to maintain the proposed level of investment in residential construction. Similarly nonresidential construction could be supplemented by planned public works, especially highway modernization and the public facilities included in a program of urban redevelopment.

A second proposal is that coverage and period of unemployment compensation be extended so that a considerable proportion of unavoidable air pockets in wage payments that will inevitably develop between war contract termination and completion of reconversion may be filled in to provide a minimum level at which income or the flow of wage and salary income payments is to be maintained. This recently has been the subject of special comment and recommendation by the Social Security Board and others, especially Richard A. Lester in his recently-issued research report to the Committee for Economic Development entitled, "Providing for Unemployed Workers in the Transition."[9]

A third set of proposals, some of which are now the subject of widespread discussion, includes measures intended greatly to enlarge private enterprise activity. Foremost here are proposals for reform of the corporate income tax again including that of the Committee for Economic Development. These proposals seem, however, to have reached a temporary state of confusion from which they need to be rescued. The cause here is that those who have been made responsible for such statements (of proposals) that have been intended for widespread circulation to the public have not had a sound and reasonably complete technical job done with such fundamental questions as the incidence of the corporate income tax. This of course is easy to say but its proving, not so easy, will await additional studies. The need for such work on incidence of the corporate income tax and the effects that could be expected to flow from different changes in it under prospectively different dynamic conditions seems "instantaneous, overwhelming, and not admitting of delay." If this technical work cannot be managed to that satisfaction which carries conviction with the public and its legislative representatives, then business leadership may be able to frame acceptable proposals for reduction in the corporate income tax in which any reduction suggested for a first five-year period shall provide that the benefits of such postwar tax reduction will flow entirely into either lowered prices or increased reward (at least relatively) for the factors of production, especially labor. The amount of such tax reduction is intended to be used for price reduction or factor (labor) reward increase in order that net "postax" profits for the first five years after

[9] New York: McGraw-Hill.

the war shall not exceed for such a period the level of a base year's profits such as in 1941.[10]

The case for reduction of the corporate income tax, except in a minority of instances has been made in such terms as "increasing incentives," "making venturing attractive," "increasing the return for risk-taking," etc., and all of these in order that there may be economic expansion. Economic expansion, however, means such things as "enlarged incomes" and "more goods at lower prices." Consequently corporate tax reduction that will initially benefit either consumers through better goods or lower prices or labor through increased income or all of these at once can be most helpful toward achieving needed postwar enlargement of output (objective 1) or toward securing price stability (objective 2) or toward securing a settled wage policy (objective 5). Management, for a five-year transition period, would profit greatly with any or all of these *non*direct benefits.

In addition to the great stimulation of output, productivity, wages, and profits that could be secured by reduction of the corporate income tax, there is another tax arrangement that can be particularly directed, especially for the case of monopoly, toward enlarging output and stabilizing prices. This particular tax is called for convenience an "antimonopoly-anti-inflation tax." In addition, its purpose is to expand output. The adoption of this special tax, intended to increase progressively upon the base of any increases in profits (from the level of the base period; e.g., 1941[11]), would provide that profit expansion occurring *without output enlargement* (i.e., as the result of price increase or cost decrease other than that particular cost decrease that can be attributable to—that is which accompanies—volume increase). Enterprises able to enlarge profits by more efficient operation, measured solely by larger output, would retain such profits. But in the longer run with progressive enlargement in the community's income, due to increased productivity in *most* parts of the productive economy, monoplies (and others) that elect to secure in the form of a higher price the enlarged profits due to the shift to the right in the demand curve for its product, would be penalized relative to producers who, under the conditions given, contribute their "competitive-and-free-enterprise-system" part in the main form economic progress must always take—larger incomes and more goods and lower prices. This is so because as profits were enlarged without output increase, the higher taxes could appropriately

[10] Here the restriction of earnings would be eased in accordance with an "antimonopoly-anti-inflation tax" to expand output. This tax is discussed below.

[11] The tax is intended to be applicable to gains in profits above the base year's level for which 1941 is suggested (with exceptions comparable to Section 722 of the Internal Revenue Code in relation to the years 1936-39 as the base for determination of the present excess profits tax).

reduce the "postax" profits to a figure that would be lower than the profits that could be secured by the more desirable alternative of expanding volume. Yet competitive enterprise would not be penalized in any instance except that of price inflation, in which event the antimonopoly-anti-inflation tax falls both upon competitive and monopolistic enterprise and thus becomes an anti-inflation tax.[12] Even under this condition the existence of the tax provides an incentive (escape from the tax) by the expedient of firms responding to the price advance with output increase, which certainly is one of the most desirable ways to counter inflation. In the special reductions in corporate taxes discussed above, which call for passing such benefits (above allowable income in the base year of 1941) either to consumers in lower prices or to labor in increased relative incomes, escape from the 1941 base limit (restriction of profits) would be provided by this special tax to increase output. As output was expanded, then profits as enlarged would not be subject to the tax.[13]

This special-purpose tax (antimonopoly and anti-inflation) provides an incentive toward output expansion. It also provides incentives toward more desirable pricing policies. To that extent it may, so to speak, belong to the next set of proposals—suggestions to achieve the objective of a stable cost of living. But before attention is given to this area—how to improve the stability of the price level—the mechanical requirements of this special tax should be indicated.

The "information requirements" for the tax are twofold: that corporations shall prepare measures representative of the value (price) and volume (physical) of their output for each year. The preparation of such indexes of price and output involves extra work to be sure, but it is a minimum, whether or not any such tax is adopted, that should be done by any larger industry.[14] For industries with a varied output, the use of either an adequate sample might be provided as an alternative to the use of "ideal" formulae for the determination of indexes of output and, of course, price. Consequently, indexes should prove to be determinable even in unusual cases where "structures of output" have been substantially changed. In extreme cases of new concerns or concerns that have wholly abandoned former lines, the suggestion is made that special tax exemption (complete or a flat rate lower than average) be provided for three years and that the results of the last of such three-year period become the base for the special

[12] More accurately profit inflation because the tax would apply if there was an increase in profit due to *cost decrease* as well as to profit increases resulting from *price increase*.

[13] Except at any normal minimum basic rate of say 5% as a franchise tax (Ruml-Sonne) or a 16, 18, or 20% normal rate with the elimination of double stockholder taxation (C.E.D.). The author, of course, favors the lower rate of 5%.

[14] It is assumed that special arrangements shall prevail for taxation of smaller concerns and in these cases there could be eliminated indexes of price and output.

tax. Decennial revision of the tax and transfer to new base periods each ten years could be provided.

The proposed "antimonopoly-anti-inflation tax" to expand output may now be summarized in the following brief statement.[15]

The tax is intended to apply to *gains* in corporate profits above a selected base year (for which 1941 is suggested). With the corporate income tax very greatly reduced, it is intended that the special tax shall apply additionally as follows:

A progressive rate schedule, rising to a suggested maximum of 50 per cent, shall apply to the rise in profits above the base's level. But such special tax shall not apply to the increase in profits if there was no increase in a weighted index of price for the output of the corporation. The special tax shall apply at rates between zero (applicable when profits rise *without price increase*), increasing by an appropriate progression to a maximum of 50 per cent (applicable when profits rise without any *expansion of output*).[16] It is to be noted that if profits did not advance above the base level of profits for the corporation, the tax is simply not applicable (and changes in prices or output are then immaterial). Thus the tax is an anti-inflation tax where inflation is defined as a rise in the rate of profits that is the result of a rise in prices or fall in costs. It is an antimonopoly tax if monopoly power secures the gain. It is a tax to expand output because only by such output expansion can increases in profits be fully retained.

The rate of the progression in the tax, in such cases in which profits rise above the base level and there is the mixed case of *both* a rise in price *and* a rise in output, would be based upon the following ratio:

$$\frac{A}{(A) + (B)} \qquad \begin{array}{l} A = \text{Increase in per unit profit times previous years' output} \\ B = \text{Increase in output } \textit{times} \text{ previous years' per unit profit} \end{array}$$

This ratio, of course, is the proportion of the increase in profits that is to be imputed to the rise in price (or decrease in costs). The complement of this ratio (expressed as a percentage) is the proportion of the increase in profits that may be attributed to the increased output.

If the progressive tax is to rise to a maximum rate of 50 per cent, the rate of tax is directly found by taking one-half of all values for all corporations found by the calculation of the given ratio.[17]

[15] The statement is extremely brief. A more detailed discussion will be available at an early date.

[16] It is to be noted that the tax rate also would appropriately apply in those cases where prices are constant but profits rise due to cost decrease.

[17] This tax as an anti-inflation tax, and the "index of inflation" discussed below, was first proposed in 1937 in the author's doctoral thesis, "Monetary Policy in Relation to Price and Output" (University of Minnesota Library).

It has been recommended that the corporate income tax be very greatly reduced. This action, under the conditions of a favorable postwar reconversion, could lead to a possible, very substantial, rise in corporate profits. Such a rise is very desirable if it induces output expansion. The antimonopoly-anti-inflation tax would induce such output expansion because if it were not undertaken, the tax would apply (and if necessary it could initially—for the first five postwar years—be fixed at a maximum rate higher than 50 per cent) to any enlargement of profit not accompanied by output expansion. Consequently, the tax would be an incentive toward expansion and a precaution against profit increase due to tax reduction.[18]

2. The problem of stability of the price level in the recent past has been critical, it continues to be critical, and it will continue so. It gives every promise of presenting difficulties in the transition (short run) and, to the extent such difficulties materialize, the price level will also continue to be a foremost problem in the longer run.

Among the lessons to be learned from wartime price experience, two stand out:

First, despite many alarms and much pessimism, the degree of price control and stability achieved, all things considered, seems to have been several degrees, so to speak, better than naturally would have been anticipated from either the extravagant desires of representatives of pressure groups or from the anticipations and expectations enunciated in the fall and winter of 1941-42 by a great many able, intellectual, economic, and political leaders. The consumer, usually judged low in political power, has so far won what may most properly be termed a resounding victory relative to his experience in World War I.

Second, as a result by late 1942 of the curbing of price advance—though without much rollback to be sure—and the survival of the Little Steel Formula at a time when the temperatures of a political campaign tend to induce malleability, the prospects for reasonable price management through the transition seem better than might have been expected. Since this subject has most adequately been discussed in other papers, it is not considered in any detail here. Only one suggestion is made. It is that a quality of automaticity, by application of objective rule in the matter of sloughing off price control, would seem highly desirable. To this end the type of desirable guide might be to provide that price control shall automatically terminate, in any industry a part of whose facilities has been devoted to war production, at the

[18] The tax proposal is also made in the belief that immediate postwar corporate tax reduction (which the author believes is most favorable to expansion) will hardly be made unless some protection such as the tax is provided to prevent possible and potential profit inflation following such corporate tax reduction.

end of that twelve-month period in which output shall have equaled that of the calendar year 1941.[19]

If somehow we can with some degree of success manage ourselves through the period when the course must be steered between price controls and price floors, each of which perhaps different groups wish sloughed off, we shall want to develop a price policy for the longer-run postwar period. Here the problem can be put in three ways: inflation or a rising price level, a constant price level, or a falling price level. A slowly rising price level offers a larger inducement to traders and to manufacturers (provided costs generally lag the price rise) thereby giving them what is widely and effectively urged as a necessary premium in profit to stimulate enterprise to the greater output levels that are needed to maintain employment in face of rising productivity and increases in the numbers in the labor force. Enterprisers in turn advance this course as favorable to the fiscal problem of the country and as a course that is not essentially unfair to the factors of production (except the rentier class) inasmuch as the penalty of higher prices can be more than offset by the rise in factor rewards that is possible with rising productivity and with the higher total output of the economy as stimulated by readily responding and active enterprisers.

A constant price level, it is argued in turn, at least does not aggravate the fiscal problem. In view of rising productivity it still offers (1) a premium for enterprising and (2) the opportunity to have the gains of productivity passed on in the competitive process in the form of higher factor incomes except for the rentier class. In contrast with price levels declining but at rates not more than offsetting productivity increases, all classes, rentiers included, share in the output rewards of a progressive society. The practical processes by which society manages the relative importance of different groups in the private enterprise system, however, are not facilitated under falling prices. More plainly, it does not facilitate increases in money wages.

But before selecting one of these three courses for the future price level, it is desirable to clarify somewhat what is meant by inflation and

[19] There are now applicable price-sustaining measures, primarily the floors for agricultural products covering the basic crops of corn, cotton, wheat, rice, tobacco, and peanuts, and the "proclamation" commodities, but excluding cattle (until recently) and sheep and lambs, wool, fresh fruits and vegetables at 90 per cent of parity, 92½ for cotton and 85 for feed grains. With respect to these, current developments indicate extremely critical problems ahead. With wheat for world market purposes now priced at about one-third above competitive grains of like quality, and with cotton in about the same price situation, we are gradually pricing ourselves out of the market for these two important commodities in which the normal export share is large. The problem is now increasingly being recognized and it is hoped that such price control can have some semblance of flexibility, if necessary, by the substitution of some measure along the lines of income parity in lieu of the price handicapping situation (to broad markets) which leads the producer to a most uneconomic allocation of resources.

deflation and how efficiency in price policy may be measured. This special problem is next considered.

Inflation for many important purposes of analysis may be measured upon a scale of values that reflects the relation, expressed as a percentage, of changes in price to changes in output. For example, the zero point, on the scale assigned to measure the degrees of inflation for a given period, is the point of zero price increase; the point 100 is that at which the price change is equaled by the change in output.[20] Further on this scale the point 50 is where the price increase has been measured at one-half of the output increase; and the point 200 is where the rate of gain in price is twice the rate of gain in output.[21] (It is obvious that comparisons are intended with Fahrenheit!) The use of such a scale in the two-year period 1935-37 suggests many interpretations of price and output developments that were at variance with loose popular usage at that time. For example, in the period from July, 1935, to July, 1937, the degree of inflation in the United States was very considerably less than in many European countries—an index of inflation of 33 for the United States (price advance of 11 per cent [wholesale] with output [industrial production] increase of 33 per cent) against an index of over 100 for Sweden and the United Kingdom (price advances of about 25 per cent with output increases of about 20 per cent).[22]

It may be observed that such an index is quite as useful for the price and output of a single commodity as for any composite of prices; e.g., the index of wholesale prices and (industrial?) output. Such an index taken over time where continuous measurements are available can usefully measure whether monetary expansion is getting the upper hand over output or resource expansion. It is of course important that monetary authorities have agreed upon what are the "critical temperatures."

When changes are measured in this way a continuous guide to monetary policy is available which, if it is found desirable, can take "output response" into consideration in many programs of price stabilization.[23] The greatest difficulty standing in the way of a more convenient use of the index lies in the fact that our statistics of price and output are so

[20] Mathematically this "index of inflation" is simply the reciprocal of the price elasticity of demand or $\frac{dy}{dx} \cdot \frac{x}{y}$ where y is price and x is output.

[21] Negative changes in price and output would similarly measure deflation. The mixed situation presents difficulties but it may be pointed out that price advance with output decreases should come out higher on the scale (a signal of alarm) and price decreases with output increases yield a special case of deflation.

[22] *Financial and Investment Review* (University of Minnesota), Apr., 1939, p. 2.

[23] Henry C. Simons: "I persist in the notions that stabilization of the value of money, however unrealized, is the only rule or principle of monetary fiscal policy we have ever had." *Journal of Political Economy,* Dec., 1944, p. 358. But if the "index of inflation" is used for cyclical purposes, price stabilization per se without regard to output is not desirable for the plain reason that in many cases the latter varies more than the former.

very seldom in that fortunate juxtaposition of the old lady described by Professor Ripley who had but two teeth, but thankful to the deity that both hit. Our collecting agencies certainly now in light of the facts at hand (in OPA and WPA) should come to some mutual agreement to make as certain as possible that our indexes of price and indexes of output also hit and that we do not accept the present sad lack of co-ordination between the two. As it is, such indexes are co-ordinate for textiles and steel products, and perhaps a few more subclasses, but for very few other classes or subclasses of goods. Moreover, one agency interests itself in industrial production and quite another in prices.

Reverting to the question of a desirable price level it should be clear that in case of underutilization of resources, stability of price may not be so desirable as some measure of price *increase* (as a device to enlarge incentive-profits and thereby induce expansion). In the immediate postwar period, in the event an underdisequilibrium results, the rule of price stability should not be too rigorously adhered to if we are to get off dead center.

In contrast, given full utilization of resources, the case is strong for price decline. Yet full utilization, except perhaps in a brief catching-up period, is much less likely for the stubborn reason that it will require a much higher level of civilian output—about 50 per cent higher (from a civilian economy lacking the drive of war) than ever produced in time of peace. Consequently until what can be called a self-sustaining economy is, if ever, achieved and, once achieved, until it is maintained for at least a decade, the case for constant, if not increasing, prices is extremely strong.

But this does not mean that the rentier or fixed-income class need be deprived of sharing in the rise in the national product as increased productivity is secured.

Since the drive toward high level employment and with it maximum output are to be the main objectives for the postwar period (there is national unity or attachment to these objectives), justice to the fixed income class can be done in what, for want of a better term, can be called a "secondary" way. By this is meant that all sources, from which they tap even their fixed incomes, are strengthened in their ability to make such fixed payments and further any secondary or nonfixed income of the fixed income class will probably be enlarged. In the past at least we have had few in this class. To be sure for the first time the size of the postwar national debt could mean, were rentiers exclusively to own it, that two out of about forty million families could maintain themselves in that class and receive 6 out of 120-140 billions of the net national income.

But there is still another way in which the fixed income class can share in progress. On a basis of equal sharing in the fruits of progress,

the share to which the fixed income class is assumed to be entitled is probably much more determinable than that of those who are "pure" rentiers. Their share, on the basis of egalitarian philosophy with respect to the sharing of expansion in the national progress, would be the per capita rise in the national dividend times the numbers in the fixed income class. Alternatively, if the rentier class as persons cannot be identified (other than as the population numbers aged 65 and over—which may prove quite acceptable for many purposes), then the product to which fixed income receivers may be considered to be entitled could be measured by the application of the increase in the national dividend to the income components that are otherwise in fact fixed.

If full justice and equity were to be attempted and if ideal conditions prevailed to make this possible, the fund for the maintenance of the national minimum for the rentier class would be this hypothetical share. It is the fund, in a sense, out of which should be paid all those expenditures that go to provide this minimum for the fixed-income class and for those other groups who for one reason or another are necessarily, or even temporarily, in this class.

3. With respect to the labor force, the point has been made that it is employment at a high level that is to be the element that is to respond to the positive measures in other areas that are intended to induce the wanted high level for employment.

Nevertheless, there are ways in which to implement the efficiency with which employment and changes in employment are secured. Certainly we should now be prepared as aggressively as possible to develop the United States Employment Service into the most efficient agency possible. We should be able to measure our employment more accurately, and to extend the training services that increase job mobility—all so that employment in the United States may be better understood, more effectively secured, and maintained at highest possible levels.

4. The achievement of the desired increases in productivity that constitute objective 4 are of crucial importance. Only a labor force that is highly productive can have high wages (objective 5).

The increase in productivity should be set up as a foremost national goal and as a goal which will command the widest possible support of leaders of labor and management as well as the general public. The more complete organization of labor should be helpful here. Certainly the extent to which the difficulties of the postwar years will arise in a serious way will probably depend on effecting reconversion reasonably quickly and depend even more upon securing the increases in productivity that will permit achieving the desired wage policy. In each of these two instances, judging the matter exclusively from the side of labor, the one difficulty which it must recognize is that securing the results it wants will require a period of time which will be shorter or

longer as labor gives its co-operation to a management which equally reciprocates such co-operation to enlarge productivity. Substantially, enlarged productivity is secured by improved methods and the use of greatly increased amounts of capital (machinery) of which high level employment requires we must produce so much. Certainly an economy makes no progress by attempting to spread employment by shortening hours or abandoning the use of machines. Rather, progress is achieved by an opposite course, and labor should constantly co-operate in the introduction of new methods and new machinery to secure enlarged productivity.[24] This, Mr. Wilson, of General Electric, made clear in pointing out that that company was going to proceed to improve the productivity position of the "poor" industries such as textiles, dairying, and laundries by developing improved machinery and equipment for them.

Clearly, difficult as the problem of a settled wage policy will be, the desire of management to secure a high output and larger profits, combined with management's policies to achieve the enlarged productivity which will permit maintenance of a high level for wages, should work toward securing the patience of all of us in the fortunately rather short-run period during which these objectives can be achieved. This goal should be acclaimed by all. Methods of other satisfactory national drives should be applied to achieving it.

With respect to the guides, in some way Congress might wish to indicate what is desired to achieve in order that the very important process of specifically stating the national objective may have been completed. That is always of the utmost importance. It is obvious that implementation in detail by industries and by plants must be secured through means adopted by labor and management.

5. The desired settled wage policy can be implemented by a second declaration of national policy to which allegiance of both labor and management should first be secured. Such a wage policy (5), when adopted, should be based upon achieving objective productivity (4), maintaining high level employment (3), securing stability in the price level (2), and through these achieve a high total product output for the United States (1). To this end the determination of a sound wage policy is of the utmost importance. The statement and implementation of the first of the objectives—enlarged material welfare for all of us—is well worth while as the way in which to contribute to the realization of this last objective—that assurance of fair treatment for labor that will permit passage, with minimum disturbance to all of us, through the difficult economic period of transition that is ahead. That is what guides are for.

[24] Later the past course of reduction in hours may, of course, be resumed, but the shortage of present deferred wants and a great need for adequate housing should first be made good.

BUSINESS PLANS FOR POSTWAR EXPANSION

By Paul G. Hoffman
Committee for Economic Development
and
The Studebaker Corporation

The Committee for Economic Development is an organization incorporated under the laws of the District of Columbia for the purpose of assisting commerce and industry in making their maximum contribution toward attaining and maintaining high levels of productivity and employment in the postwar period. The membership of its Board of Trustees and Research Committee is drawn from the business community. The members of its Research Advisory Board and research staff, as well as its research consultants, are economists and social scientists of high repute. The Committee is nonpolitical, nonpartisan, and self-financed.

Philosophically, the members of C.E.D. believe that the general public welfare will be best served by maintaining and strengthening our system of free private enterprise in the postwar period. However, they recognize that there are areas where public enterprise should prevail because it best serves the public interest. They also recognize that the public interest, as well as the effective functioning of our economy, always has and always will call for intervention on the part of government. Insofar as possible, they feel that government intervention should be exercised through impersonal rather than personal controls. Finally, and most importantly, they take the position that free private enterprise can best bulwark itself in the postwar period by laying out a program calling for a record-breaking expansion over prewar levels in the output of goods and services. They hold that the yardstick used by the general public in measuring its performance is employment. If there is a plenitude of well-paid jobs, the public judgment is favorable. On the other hand, if there is substantial unemployment, questions are raised as to whether the system should not be changed.

One of the first efforts of the Committee was to measure the task that lay ahead in terms of the number of new postwar jobs required to produce abundant employment as against the number available in our last peacetime year of 1940. Diligent study brought the conclusion that it was difficult to be exact, but that if 53 to 56 million civilian jobs were available in the immediate postwar period the situation would be highly satisfactory. This meant that 7 to 10 million new peacetime jobs would be needed. Recognizing that in the field of private endeavor jobs stem only from the output of goods and services, the Committee estimated that in order to have those 7 to 10 million jobs available an

increase of from 35 to 45 per cent in output over the levels prevailing in 1940 must be accepted as a goal. The quick achievement of such a goal after hostilities cease seemed to the Committee to be a task of such magnitude that two conclusions were inescapable: (1) America's 2 million enterprisers should prepare and have ready bold, intelligent plans for immediate use when the green light was given for civilian production, and (2) that studies should be undertaken of all policies of government, business, and labor bearing importantly on production and employment, with a view to ascertaining what changes, if any, should be made in order to create a favorable economic climate for expansion.

That is enough philosophy and analysis. From now on I propose to describe to you what the Committee is actually doing in the hope of making a worth-while contribution to the achievement of a high level of employment and production in the postwar period. Its activities are carried out by two major divisions—the Field Development Division and the Research Division.

The Field Development Division has two functions: (1) to gather from all possible sources helpful information on postwar planning, and (2) to disseminate that information to as high a percentage of America's employers as possible. Experts in manufacturing, marketing, sales, finance, and management engineering have pooled their knowledge and made it available to expert writers, who in turn have produced a series of handbooks on manufacturing, wholesaling, retailing, financing during the transitional period, sales training, and sales management, which have proved to be of great value to enterprisers who are trying to work out their individual plans. In addition, the Field Development Division has produced sound slide films describing new materials such as plastics, new steels, magnesium and their possible uses in the development of postwar products. A large number of sales training clinics have been held throughout the country, and as a result thousands of sales managers are now engaged in studies aimed at a reduction in distributing costs. These sales managers recognize that the best stimulant to larger markets is lower prices, to which more efficient distribution can contribute substantially.

In performing its second function, namely, dissemination of knowledge important to postwar planning, the Field Development Division has carried on activities on three fronts: (1) it has made a direct approach to the 3,300 corporations employing one thousand persons or more, (2) it has sought and obtained the co-operation of hundreds of trade associations, and (3) it has organized local C.E.D. committees in the principal employment centers in the country.

This third front, namely, community activity, we think of as the "grass roots" approach, or the "mobilization of main street." It was

an undertaking we approached with misgivings but with the hope that we might succeed eventually in getting approximately a thousand communities to mobilize for expanded production and employment. The response to our campaign exceeded our highest hopes. As of today, after some two years of work, more than 2,200 communities have C.E.D. committees, most of which are functioning very effectively. These local committees, first of all, find out how many new jobs are going to be needed and then proceed on a company-by-company basis to assist and stimulate the individual employers to prepare adequate postwar plans. Between forty and fifty thousand American business leaders are enrolled in these local C.E.D. committees. Each committee has complete autonomy. Perhaps the most interesting observation I can offer regarding the work of these committees is that they have demonstrated to our complete satisfaction that our greatest natural resource here in America is the inventiveness and resourcefulness of our average citizen. Our best efforts at national headquarters to conceive ideal plans for community action have proved to be sophomoric and futile as measured against those which the communities have evolved for themselves.

The Research Division of C.E.D. is charged with the responsibility of contributing as best it can toward providing an economic climate favorable to expansion. We do not have such a climate today. There are policies in business, government, labor, and agriculture which promote contraction rather than expansion. This is understandable, because the panic of 1929 and the depression which followed gave birth to some strange thinking which, in turn, found expression in weird policies. Business, which was suffering from a lack of volume, initiated, and in large measure supported, the NRA with its codes for increasing prices and stifling competition. Offering better values became a crime. Numerous and sundry programs were proposed by various segments in agriculture for plowing under acreage and not growing crops. These were supported, perhaps reluctantly, by most of America's farmers. Labor, not to be outdone, went to new lengths in imposing unnecessary restrictions on output. Government, obligingly, through legislative action, gave the sanction of law to many of these activities designed to fasten upon us an economy of scarcity.

It took a war to change our thinking, to accept goals of greater and greater production, and, above all, to restore to us faith in ourselves. Today no one doubts America's capacity to produce. And no one quarrels with the idea that we must produce more if we are to have more to divide. But there still remains the urgent necessity of revising many of the policies of business, labor and agriculture, and of changing many of the laws of the land before we can hope to achieve a peacetime economy of abundance.

Business, labor, and agriculture each have the right—in fact, the

responsibility—to make suggestions and recommendations as to the changes in laws and policies which they believe necessary. Our committee, in considering how it might engage in a constructive activity looking toward the creation of a better economic climate, reached certain conclusions. First of all, we recognized that the only sound approach in the appraisal of policies should be from the standpoint of the general public welfare. We did not subscribe to the idea that what helps business helps you, but rather what helps you and every other American, helps business. Our primary concern is over the maintenance of a free dynamic society in the postwar period. If such a society prevails, business and labor both can be assured of their essential freedoms.

The activities of the Research Division have been organized to insure its operation at a statesmanlike level. The Division is composed of three sections: (1) a Research Committee composed entirely of businessmen; (2) a Research Advisory Board composed of outstanding social scientists which assists the Research Committee in planning and conducting studies; and (3) a Research Staff headed by Theodore Yntema, on leave of absence from the School of Business of the University of Chicago.

When a subject of research has been approved by the Research Committee, it is the task of the Research Director to select and employ the services of a specialist—or in some cases, several—in the particular field of the investigation. The individual so selected is responsible for the preparation of the study. The setup of the Research Division is unique in that while independence is guaranteed the scholars, they have the opportunity to consult with businessmen and other scholars as their studies progress.

Four studies have already been completed: (1) *The Liquidation of War Production* (cancellation of war contracts and disposal of government-owned plants and surpluses), by Dr. A. D. H. Kaplan, of the University of Denver, (2) *Production, Jobs and Taxes,* a preliminary report on postwar tax reform, by Harold M. Groves, Professor of Economics at the University of Wisconsin, (3) *Providing for Unemployed Workers in the Transition,* by Richard A. Lester, Associate Professor of Economics at Duke University, and (4) *Demobilization of Wartime Economic Controls,* by John Maurice Clark, Professor of Economics at Columbia University. Other studies now under way include: (1) Manpower Demobilization and Re-employment; (2) Financing the Transition of Business from War to Peace; (3) Monetary and Banking Policies in the Postwar Transitional Period; (4) Agriculture in a Developing Economy; (5) International Trade and Domestic Employment; (6) Business Arrangements in Foreign Trade; (7) Incentives for Business Expansion; (8) The Special Problems of Small

Business; (9) Business Fluctuations (a major study of ways and means to combat depression and unemployment).

In addition to the reports made by the scholars themselves, the committee of businessmen reserved for themselves the right to make independent reports for which they were wholly responsible. Recently issued has been such a report under the title, *A Postwar Federal Tax Plan for High Employment*. This was prepared after we had read and participated in the discussion of Professor Groves's study. If we had issued a report on the subject eighteen months ago it would have been a far different document than that which finally evolved. Professors have a way of forcing one to face fact after fact. By this obnoxious process deep-seated prejudices are finally uprooted. Professor Groves has stated publicly that he learned much from the business group as a result of discussing his tax proposals with us. We businessmen have learned much from Professor Groves and his associates. Policy statements have also been issued by the Research Committee on the termination of war contracts, the liquidation of war production, and two others will shortly be released, one on the liquidation of wartime controls and the other on unemployment during the transitional period.

As each monograph and policy statement nears completion, a program for its distribution is developed by our Public Information Committee. The monographs are published by McGraw-Hill in book form and sold at prices ranging from $1.25 upward. Every effort is made to obtain a wide reading of both the books and statements by the opinion makers of the country. Results thus far have been uniformly good. Circulation of Professor Groves's book has exceeded 5,500 copies. The circulation of the tax policy statement, which is sent out without charge, has exceeded 210,000 copies. The local C.E.D. committees have been responsible in no small way for the large circulation of the economic literature which has been put out under the Committee's auspices. This seems to me to be of considerable significance, because as business groups throughout the country achieve increased economic literacy, it is reasonable to hope that sound proposals in the economic realm may receive a greater degree of support.

Only at some future time can there be any adequate appraisal as to the contribution which C.E.D. may be making to the achievement of a high level of production and employment. However, we can state as of this date that evidence continues to mount that out of all this labor on the part of the scholars and businessmen will come something more than a mouse.

DISCUSSION

MILTON GILBERT: Mr. Hoffman's paper is a clear and succinct statement of the philosophy, objectives, and program of the Committee for Economic Development. If anything, his paper understates the accomplishment of the C.E.D. to date. The organization stands well in front among business groups in stimulating open-minded interest and discussion about basic economic problems. Its thinking has not been timid or confined to well-worn grooves. It has initiated a research program that can already be seen to be a substantial contribution to postwar policy formation. Even in the relation it has established between social scientists and businessmen, the C.E.D.'s approach has been novel and progressive.

However, I do feel that some shift and a few steps forward in the C.E.D. viewpoint are indicated. I will illustrate what I have in mind by two comments: one relating to its general point of view and one to its research plans.

1. The impression has been created that the fundamental purpose of the C.E.D. is to stimulate business plans for postwar expansion so that any potential unemployment problem might be handled by private enterprise rather than by government. The idea seems to be that business had better solve the unemployment problem or government will, with the implication that the injection of government responsibility into the problem would be inimical to free business enterprise. While government is not entirely ruled out, it is accepted in extreme situations as at best a necessary evil.

To start with, this formulation of the problem seems to me somewhat beside the point because it emphasizes creating full employment rather than maintaining full employment. The question at issue is not whether business can create the next boom; it might even seem superfluous to raise such a question at a time when a government deficit in excess of 50 billion dollars per annum has created a huge volume of accumulated savings and business reserves. If the C.E.D. induces the business community to concentrate five years of capital expansion into two years, of course business will be able to create the next boom with no difficulty. The question that must be faced, however, is whether business will be able to prevent the next depression. I believe the C.E.D. should shift its position so as to direct the thinking of the business community to this essential question.

Furthermore, to concentrate on the necessity of business planning for expansion implies that unemployment in the past was due to the failure of business to take advantage of market opportunities. That implication is not demonstrable to any extent that is quantitively important. Unemployment, say during the thirties, was due to forces with which the individual business could not cope in its entrepreneurial function. If the businessman failed, in some degree, to meet his responsibilities in the thirties, it was not as an entrepreneur but as a citizen participating in governmental policy formation for meeting national problems.

There remains the assumption that creating and maintaining full employment is an essential responsibility of free enterprise and that failure to accomplish this would cast doubt on its usefulness to society. Mr. Hoffman

states this proposition as being accepted by the public and I have the impression that the C.E.D. has contributed to this acceptance. However, the proposition is not good economics; nor is it sound strategy for those who believe in free enterprise.

In the first place, creating and maintaining full employment is not an essential responsibility of private business. This could be so only if the responsibility of each firm could be assessed so that the sum of the individual responsibilities could be added up to the total responsibility. So long as one cannot specify General Motors' employment quota, U. S. Steel's quota, and the corner grocery store's quota, it is meaningless to talk of the quota for all business. If these employment quotas were to be assigned by government, there would obviously not be free enterprise. If they were determined by business acting collectively, then the business group would be taking on functions of government. And if there is no way to assign the quotas, there is no business responsibility for total employment.

In the second place, the benefits of private enterprise are many and varied regardless of whether it is able at a particular period in time both to create and maintain full employment. The essential benefits of free enterprise are its stimulation of new ideas and technological developments, its adapting the use of economic resources in conformity with market demand, and the fact that it frees organized society of a tremendous mass of administrative detail. The existence of unemployment does not eliminate these benefits.

In reconsidering its position the C.E.D. would be well advised to weigh the fact that a good many economists and a growing number of businessmen are convinced that government responsibility for a high and stable level of employment can be made effective by instruments that would necessitate no compromise of the free enterprise system. They believe, in fact, that relieving business of the specter of depression (or inflation) would allow free enterprise to function with a new vigor, a new rationality, and with the utmost consistency to social needs.

2. In looking over the list of research topics shown in Mr. Hoffman's paper, one is impelled to ask whether it contains all the essential problems and whether they are in the right order. The defects of the list on these two counts are not disconnected.

It is indicative of the state of C.E.D. thinking that the project, "Business Fluctuations (a major study of ways and means of combatting unemployment)," appears last in the list. This is unfortunate; it should be moved up to first place. Such a shift would be desirable, not only because the unemployment problem was the *raison d'être* for the organization of the C.E.D., but because it is fundamentally impossible to attack many of the other problems in the C.E.D. research program without some assumption as to what the business cycle problem is and the general policy and instruments required to meet that problem.

If one tries to formulate the current state of opinion about postwar economic policy, one finds a great deal of confusion on everything but a few broad objectives. At the risk of oversimplification, I would say that this confusion is a result of having no decision on the general line of policy to be followed

in maintaining full employment with the result that the curing of unemployment is injected into every subsidiary problem whether it has relevance or not. In terms of analytical techniques, the confusion is due to not clearly separating problems in business cycle analysis from problems for which equilibrium theory is the appropriate instrument. We find ourselves talking about international trade and full employment, small business and full employment, agriculture and full employment, public housing and full employment, and so on. I am not suggesting that full employment policy should not be eclectic in its technical instruments but I do believe that the general framework of full employment policy must be set forth if we are to have anything like clarity of thinking about a large group of subsidiary problems.

Until the full employment problem is defined and policy formulated a good deal of other research must be suspect. It is not economy to attack the problem piece by piece in a series of studies dealing with taxes, agriculture, small business, foreign trade, etc., in the vague hope that they will add up to a sensible answer in the end. Nor is it feasible. For example, the idea that any given tax plan will balance the national budget and enable some repayment of the public debt under postwar full employment conditions—the claim made in the C.E.D.'s "Federal Tax Plan for High Employment"—is a gratuitous assumption until the composition of the national accounts at full employment for a given year is determined.

From the standpoint of business itself, first things should be put first. The danger to free enterprise is not the government's assuming some responsibility for limiting business cycle fluctuations if that responsibility is exercised through well-chosen instruments. The danger is that the instruments will not have been determined by the time the next crisis comes and that the government (regardless of administration) will improvise ways and means that will impede private enterprise operations.

The C.E.D. research committee appears to believe that the business cycle problem requires another extensive research project. Of course, such a project can do no harm and eventually may prove exceedingly useful—although there is some evidence from the past that the more extensive the projects on policy questions, the less significant the answers.

But as a makeshift until this study is available, I suggest the following practical proposal to the research committee: Request the five leading economists in the field of business cycle analysis to submit five-page memoranda on the general mechanism for stopping the next depression before it becomes a catastrophe. These memoranda should contain only the general approach to the problem, the general lines of policy to be followed, and the general instruments to be used. The research committee should examine these plans with the cold detachment they would use in examining plans for a brake to stop an automobile from rolling down hill. Each member of the committee should consider whether the plan promises to be effective and whether it would interfere with his own operation as a businessman. If the committee can find anything that appears reasonable, is should proclaim its plan and see that its other pronouncements are consistent with it.

The failure to deal with full employment policy as a first step makes it easy and almost inevitable to neglect very important problems. I will mention only one that is missing from the C.E.D. list of research projects—an investigation of postwar wage policy. As a matter of fact, it is significant that the C.E.D. has not developed a break-down of the postwar income flow into the component distributive shares as it has done with the product side of the national account. Of course, this is not an easy task, but until it is done other problems are being attacked in a vacuum. One cannot tell whether any given conclusion about the level of the gross national product is sensible until all items of the national account are filled in and their consistency determined.

JOHN H. G. PIERSON: Dr. Upgren's very stimulating paper has a range and depth entitling it to much more extensive review than can be given here. In the main I shall confine myself to certain issues posed by the way in which he states his objectives.

Many differences of opinion about policy proposals evidently depend upon the fact that one school of thought conceives of the objective as a large output while another thinks in terms of assured full employment. Obviously for many practical purposes the two schools find themselves in agreement. But this does not make the distinction academic. Attainment of some objective other than full employment (e.g., a specified volume of gross national product) is likely to leave a substantially larger number unemployed than normal turnover requires; furthermore, objectives defined in dollars, physical output, etc., may be more readily compromised whenever they become difficult to attain. But if universal employment opportunity is not maintained, then a personal right with profound intrinsic significance will have been denied, and society moreover may expect mounting social tensions connected with job discrimination, and strain in our international relations connected with our effort to export and not import. Certainly all this might happen while unemployment still stood below the 10 per cent level (say, 6 million persons) at which Dr. Upgren would have the government apply decisive measures to prevent further deterioration.

Dr. Upgren is right, I believe, in stressing the difficulty of achieving a satisfactory solution, as well as the importance of attacking unemployment through "*general* measures" and avoiding "planning either in fulsome detail or 'at any price.' " He rightly emphasizes the necessity of keeping in mind a whole series of major objectives—involving gross national product, prices, productivity, and wage policy as well as employment—and the desirability of setting quantitative goals in each case. Two questions arise, however: (1) must it be inferred that a real full employment program requires excessively detailed planning and the sacrifice of other, comparably important values? and (2) are the several quantitative indicators mentioned by Dr. Upgren all of equal significance for operating purposes, as would almost appear to be implied in his discussion? I believe that the right answer is "no" in each case.

There is good hope that full employment can be maintained without an excess of detailed planning and intervention by the government, because properly constructed fiscal policies, aimed at maintaining demand and co-ordinated with advance guarantees, can minimize the necessity for direct interferences with business. While in recent years many writers in advocating fiscal measures have paid too little attention to the individual rigidities and restrictions that constitute the other great problem area, nevertheless continued assurance of a high level of demand could well make all the difference between possible success and inevitable failure in tempering these rigidities and restrictions without extravagant doses of compulsion. Why should a deflationary decline in demand (or an inflationary increase in demand) be permitted to take place at all? Of course care needs to be exercised that a sufficiently large part of the total demand occurs in regular private markets, since otherwise full employment will not be maintained without unduly large amounts of direct job provision by the government.

Hence presumably government should underwrite total consumer spending as well as total employment; thus supporting the production of consumer goods and, indirectly, sustaining private investment. Remaining variations in private investment could then be offset by opposite variations in public investment, thereby creating approximate stability in the construction industry. The number of supplementary jobs the government would have to give would be lessened because of the adequate market demand for private output. (Dr. Upgren, incidentally, refers to job underwriting as though it were synonymous with job provision, which surely it is not, even in the absence of consumption underwriting.) The amount of direct support the government would have to give to individual consumer demand, through tax offsets or through distributions of extra purchasing power, would be no greater than required to cancel the effects of oversaving, since there would already be a volume of disposable income derived from full employment.

With such a policy in force, no undue burden need be placed on gross national product (expenditure) statistics—which sometimes seem about to be saddled by advocates of full employment with almost overwhelming responsibilities. An advance estimate of gross national expenditures at full employment would be used for deriving the size or range of total consumer spending to be underwritten, but any final adjustments required to maintain full employment as administratively defined would be made directly in jobs, not in dollars. Thus there would be two main indexes actually used for operating purposes: (1) employment (or unemployment), and (2) consumer spending. Other elements would tend to fall into place.

Special interest attaches, for this reviewer, to Dr. Upgren's "antimonopoly-anti-inflation tax"; the promised fuller elucidation will be awaited with keen anticipation. It needs to be decided soon whether it is necessary and feasible to define and identify "monopolies" for tax purposes and lay on them, in return for immunity from antitrust prosecution, a form of tax calculated to promote low prices and expansion of output, or whether a formula such as Dr. Upgren's applying to all corporations, can be adopted instead without

unduly penalizing the temporarily high profits of successful competitive risk taking.

Mr. Hoffman's interesting discussion of the program and philosophy of the Committee for Economic Development bears further witness to the constructive work being carried on by that organization. Any criticism of this statement would seem to be gratuitous. I should like, however, to offer two suggestions for future consideration by the C.E.D.

Mr. Hoffman repeats the standard C.E.D. estimate "that if fifty-three to fifty-six million civilian jobs were available in the immediate postwar period the situation would be highly satisfactory." Admittedly it is difficult to be exact, especially when it is impossible to specify the year under consideration, the size of the postwar armed forces, and other relevant factors. Furthermore, in general discussion there is even a danger that excessive preoccupation with a purely numerical target of so-and-so-many jobs, conceived of as capable of specification in advance, may tend to obscure the ultimate goal of jobs for all who are able to work and desire to work, whatever their number may turn out to be. (Of course, some kind of numerical target is essential for administrative purposes if "full employment" is to be defined and maintained. But the real goal behind the administrative definition should be unrestricted employment opportunity for men and women.) Finally, having once adopted the 53 to 56 million approximation as the target for businessmen to keep in mind, the C.E.D. will naturally not wish to change its position without good cause. Nevertheless, it now appears that this target probably is too low, except at its upper margin.

Statistical computations being used by federal agencies, as well as by such private organizations as the National Planning Association, indicate that the so-called "normal" labor force, derived by projecting prewar trends, will be about 59 million by 1947, 59.5 million by 1948, and 60.5 million by 1950. An allowance of 1 million additional workers, net of war casualties, as the permanent legacy of the "abnormal increment" occasioned by the war, would appear to be conservatively low. Hence if 1948, for example, is assumed to be the postwar year under discussion, it is probable that the number of employable persons looking for work or working will not be smaller than 60.5 million, and may as a result of fewer voluntary withdrawals from the labor force be somewhat larger. If, then, we assume a postwar military force of 2.5 million, the provision of 56 million civilian jobs in, say, 1948 would probably leave a minimum of 2 million workers unemployed, and might thus approximately meet requirements since 2 million might perhaps be considered not far from the necessary amount of frictional or turnover unemployment consistent with "full employment" in the operating sense. On the other hand, the provision of only 53 million civilian jobs would probably leave 5 million or more workers unemployed in 1948. (Even in 1947 or 1946 the unemployed remainder would probably be at least 5 million, since it would seem unrealistic to assume that the "abnormal increment" could reduce itself to 1 million by such an early date.) It is hard to see, in short, how 53 million civilian jobs

could be regarded as "highly satisfactory." It is therefore suggested that, if the C.E.D. finds itself in agreement with the labor force computations currently in use in Washington, it may wish at this point to revise its quantitative formulation of the employment target at which business should shoot.

My second suggestion relates to the manner in which the C.E.D. might utilize all available quantitative data bearing on the relationship between aggregate dollar volume of demand for products, aggregate employment, and price and wage levels. The "economic climate favorable to expansion" obviously has its quantitative as well as its qualitative aspects. In particular, the total volume of demand expected to eventuate for goods and services—demand by consumers, by federal, state, and local government, and by businessmen themselves—should have a great deal of strategic significance. Businessmen usually base their expectations on recent experience and trends within their own industry rather than on what may happen to national expenditure as a whole. In most cases, however, the market for the individual company's product will in point of fact be somewhat affected by the number of dollars being spent in the aggregate. If the postwar employment estimates made by C.E.D. community committees fail to yield a satisfactory picture in the individual community and for the economy as a whole, that need not settle the matter. It may be that new estimates yielding a much more favorable picture could be obtained if this relationship between total demand and demand for a given product were given full attention and if a definite expectation could be created that total demand would be maintained at a high level.

On this hypothesis, it would seem desirable for the C.E.D.'s Research Division to concern itself with calculating, and discovering means of obtaining, the volume of consumer demand necessary to justify the desired business expansion, taking into account (a) the probable concurrent amounts of private domestic investment expenditure, the expected net exports, and the government expenditures within those areas—referred to by Mr. Hoffman—"where public enterprise should prevail because it best serves the public interest," and (b) the expected levels of wages and prices. The Field Development Division might then shoulder the task of getting individual businessmen to add to their existing postwar estimates, which are linked up with a variety of implicit assumptions about demand conditions, a new set of estimates—even though these would be only tentative and theoretical at first—based upon the explicit assumption that the specified "necessary" volume of demand would actually materialize. The results might contribute significantly to the understanding of the ways and means by which involuntary unemployment may be prevented from recurring.

NATURAL RESOURCES AND INTERNATIONAL POLICY

PROPHECIES OF SCARCITY OR EXHAUSTION OF NATURAL RESOURCES IN THE UNITED STATES

By HAROLD F. WILLIAMSON
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Much has been written about the American conservation movement, but the part played by prophecies of scarcity or exhaustion has not been developed. Yet such predictions are an integral part of the drive for conservation. Arguments urging caution in exploiting a natural resource lose most of their force if the supply promises to be unlimited. Advocates of conservation have used predictions of scarcity to emphasize their point of view; opponents have attacked the notion in order to bring discredit on the movement. Predictions in the field have been symptomatic of current opinion respecting our resources. Comments about nature's boundless gifts reflect a complacency that has been quite typical of the general attitude in the country throughout much of our history. Statements to the effect that resources were in danger of being depleted or exhausted indicated that the legend of inexhaustibility was being challenged.[1] Prophecies, however, have been more than symptoms. They have played an important part in bringing about changes in public opinion and policy by dramatizing the problems involved and putting them into more concrete and understandable terms. In addition, their study illustrates changes in the methods used in arriving at the extent of resources and in prognosticating rates of exploitation.

In this paper no attempt will be made to treat all the resources about which prophecies of scarcity or exhaustion have been made, nor will it be possible to examine in any detail the influence predictions of exhaustion have had on public opinion and policy. Discussion has been generally limited to those subjects about which the greatest concern has been expressed during our history and to some of the problems that were met in attempting to predict their future usefulness.

I

The earliest concern in regard to the dangers of resource depletion was related to forests and came during the Colonial period. It found

[1] One writer has stated: "Conservation, like health and justice, takes on meaning only through defect. The idea would have no point in a human society which maintained a favorable and well-balanced relation to its environment." Paul B. Sears in Raphael Zon, *et al., Conservation of Renewable Natural Resources* (Philadelphia: University of Pennsylvania Press, 1941), p. 89.

expression in the well-known broad-arrow policy of the British and in various Colonial acts limiting the use of forest products. In 1822 the federal government took steps to reserve certain types of timber for the use of the Navy. There were some contemporary statements suggesting the possibility that the forests might be depleted, but few, if any, of these early writers thought the danger was imminent.[2]

Soon after the middle of the nineteenth century, predictions about the future life of our forests became more frequent. Interest was prompted by a real or apparent connection between local and regional timber depletion and higher prices for lumber, increasing floods, soil erosion, lowered rainfall, and similar evils. Fears began to be expressed that our forests were being threatened on a broad regional or even national scale.[3] One of the more explicit of these appeared in January, 1871. After indicating how badly depleted the forests of eastern Canada and northeastern United States had become, the writer stated:

> The days of timber still standing east of the Rocky Mountains are already numbered. At the present increased rate of consumption, it is believed that the timber now growing will be cut and marketed within fifteen or twenty years. Taking into account the size of the forests and rate of consumption on the west coast . . . our entire forests will have disappeared, unless renewed, within the short period of 65 years.[4]

Most predictions during these years took into account the fact that forests were renewable and pointed out the possibility of exhaustion, without setting a particular date. For example, Professor Charles S. Sargent, of Harvard, wrote in 1887:

> The American people must learn several economic lessons before the future of their forests can be considered secure. They must learn that a forest, whatever its extent and resources, can be exhausted in a surprisingly short time.[5]

By 1900 the dangers of forest depletion had been pretty well publicized. With increasing frequency many of the leading magazines and

[2] Cf. John Ise, *The United States Forest Policy* (New Haven: Yale University Press, 1920), pp. 19-28.

[3] Jenks Cameron notes a statement made in 1860 on the "alleged authority of the most experienced lumbermen" that forest consumption was exceeding forest growth by 30% annually. *The Development of Government Forest Control in the United States* (Baltimore: Johns Hopkins Press, 1928), p. 180.

[4] Talisien Evans, "Western Woodlands," *The Overland Monthly*, Vol. 6, No. 1 (Jan. 1, 1871), pp. 225, 227. The following year, in urging the passage of legislation for the conservation of forests, Representative Haldeman of Pennsylvania said in the House of Representatives: "We are threatened with a want of sufficient quantity of timber to meet the actual necessities of life. . . . We must be absolutely startled with the conviction that whole provinces of woods which have required a hundred years to grow are being swept away while nothing is being done by either public or private zeal to supply the place of that which is destroyed or protect in any measure that which exists." *The Congressional Globe*, Apr. 17, 1872, p. 2506. Cf. the editorial comment in *The American Architect and Building News*, Vol. XVIII (Dec. 19, 1885), pp. 296-297; David D. Thompson, "Destruction of American Forests and the Consequences," *Baptist Review*, Vol. II (Oct.-Dec., 1880), pp. 485-513; Ise, *op. cit.*, pp. 26 ff.

[5] "Protection of Forests," *North American Review*, Vol. 135 (1882), p. 401. Similarly, B. E. Fernow, then Chief of Forestry Division in the Department of Agriculture, pointed out in 1887: "The vast stretches of so-called forest still standing [have] encouraged the

newspapers of the day carried articles and editorials on the necessity of preserving our woodlands. Agitation was also carried on by various scientific organizations and other associations such as the Forestry Congress.

Meanwhile, expressions of concern over possible exhaustion of other resources began to appear. Within a few years after the drilling of Drake's famous well in 1859 doubts were voiced respecting the continuance of production.[6] One of the more noteworthy early predictions about the future of oil was made in 1882 by Henry E. Wrigley, a well-known authority. In an address before the American Institute of Mining Engineers he fixed the existing oil reserves of Pennsylvania and New York at 96 million barrels. It was his opinion, based on many years of close observation, that the oil section had reached a point of development where the amount of oil remaining could be measured with sufficient accuracy to predict definitely the life of the region. He concluded:

> The possession of a check book is not of itself evidence of wealth. We have had a certain quantity of oil placed to our credit in the Bank of Nature on which we have been drawing checks for twenty years; in 1875 we were checking out 6 millions, and in 1882 we were checking out 25 millions annually. Some day the check will come back indorsed "no deposits," and we are approaching that day very fast.[7]

These remarks were made at a time when Pennsylvania and New York were supplying over 99 per cent of our oil.

Twelve years later, in 1894, the well-known geologist, Professor N. S. Shaler, of Harvard, said:

> Little is known concerning the stores of petroleum or of natural gas which may be contained in the western section of North America. It seems likely, however, that both of these substances are far from abundant in this part of the world. A few wells have yielded oil in California. The amount of their product has been small, and the general geological conditions of the Cordilleran realm contradicts the existence of any large deposits of these fluid and gaseous fuels.[8]

A few years before, Professor Shaler had expressed concern over the future supply of national gas. Writing in *Forum* in May, 1887, he cast serious doubt concerning a suggested theory that natural gas was being continuously reproduced. He continued:

> It seems therefore likely, that even in a generation we shall find ourselves, as regards the production of naturai gas, in the position to which we are sure to come within a

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notion that exhaustion was impossible, that nature's provision would unaided recuperate the drains made on her." "Our Forestry Problem," *Popular Science Monthly*, Vol. 32 (1887), p. 230.

[6] Ise, *op. cit.*, p. 274, quotes a writer in *Derrick*, who reported in Oct., 1861: "Fears are entertained that the supply (of oil) will soon be exhausted if something is not done to prevent the waste."

[7] Henry E. Wrigley, C.E., "The Amount of Oil Remaining in Pennsylvania and New York," *Transactions of American Institute of Mining Engineers*, Vol. 10 (May 1881—Feb. 1882), p. 360. I am indebted to Mr. Wallace E. Pratt for first calling my attention to this reference.

[8] N. S. Shaler (Editor), *The United States of America*, Vol. II (New York: D. Appleton and Co., 1894), p. 454.

century with regard to the production of petroleum, where the larger and more profitable stores of the material having been exhausted, there will remain only the scantiest fields.[9]

Somewhat less alarming predictions were made about anthracite coal. According to an editorial comment in the *Popular Science Monthly* in 1879, " . . . the anthracite coal fields would be exhausted in 186 years, say in the year 2065."[10] Some years later, in 1892, Joseph S. Harris, writing in *Forum*, estimated that a total of almost 12 billion tons of anthracite coal remained in the ground of which almost half could be mined. This supply he believed would last about a hundred years.[11] Supplies of bituminous were apparently so large that there was little concern over their future life.

The foregoing examples must suffice to indicate the nature of predictions that were made in the years prior to 1900 about the dangers of resource depletion or exhaustion. They did not go unchallenged. The following remarks, made in 1891, are illustrative of a not uncommon reaction:

> It's all bosh—this talk about the destruction of our forests. There is more wood growing now in the United States than there was one hundred years ago, more than we want or can use. . . . Don't you know that all the abandoned farms in New England grow up in wood? Don't you know that in the South more than half the land is covered with forests? And along the Pacific Coast the timber is simply inexhaustible.[12]

In 1891, another writer said of petroleum:

> Only a third of a century has passed since Drake drilled his first well for oil. The business is in its infancy. The vast mountain ranges of the world—the natural depositories of this fluid—are as yet unvexed by the drill of the oil operator. What they hold for the future can only be imagined, but that oil and natural gas are to be the source of the world's great fuel supply in the future seems, from known facts, to be altogether probable.[13]

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[9] *Forum*, Vol. 3 (May, 1887), p. 310.

[10] "The Coal of the Future," *Popular Science Monthly*, Vol. 15, p. 856.

[11] *Forum*, Vol. 13, pp. 196-198. Peter Roberts, *The Anthracite Coal Industry* (New York: Macmillan Co., 1901), accepted a figure of 4,832,685,668 tons yet to be mined. By estimating annual production at 60,000,000 tons he figured that this amount would last about 80 years (pp. 11-12).

[12] *Forest Leaves*, Vol. III, No. 6 (June, 1891), p. 90. This quotation appears in Jenks Cameron, *op. cit.*, p. 8, who attributes it to Henry Gannett. Another example of skepticism regarding depletion of a natural resource appeared as an editorial in *Engineering Magazine:* "This question of the possible exhaustion of the world's deposits of iron bears a resemblance to other alarmists' predictions about the failure of various natural resources. It was only about 100 years ago that Malthus predicted that the ratio of increase of population was such that starvation must soon overtake the world, but that dire fate seems as far off as ever. It is wise to examine carefully into our stock of natural resources, but this should be done rather to guide us in their exploitation rather than to predict an early impending evil." Vol. 31, Apr.-Sept., 1906, p. 941.

Two years later *Harper's Weekly* opined: "The question of the exhaustion of the coal supply in the United States is not one that can affect the present generation or the next. Yet the American supply is likely to be exhausted before that of Europe and particularly before that of Great Britain. Looking at the matter from the point of view of the national providence or provision, covering generations and generations, America should beyond doubt, be a little saving of its coal." *Harper's Weekly*, Vol. 52 (Apr. 25, 1908), p. 29.

[13] S. D. Prentice, "Natural Gas and Oil Production," *Cassier's Magazine*, Vol. III, No. 18 (Apr., 1893), p. 413.

It seems probable that the optimistic views of the future of our resources were more widely accepted by the public than those that predicted unpleasant alternatives. The lead in conservation had been taken by a relatively small group composed chiefly of scientists, academicians, and government officials. While appearing occasionally in popular periodicals and newspapers, their predictions were generally made before limited audiences or were buried in government documents or the records of learned societies. General indifference was noted by John Hays Hammond in 1908, who complained:

> It has unfortunately become the popular custom to speak of the natural resources of our country as illimitable, and consequently to regard the discussion of the conservation of these resources as academic, or at best as scientific speculation. All efforts, heretofore of a few enthusiastic theorists—as they were considered—have availed naught to disturb this imperturbable complacency and optimism.[14]

Yet the dangers of resource depletion had attracted the attention of a considerable number of influential people and had helped set the stage for a vigorous campaign for conservation that was to follow. Many of the conservation policies that had been adopted by 1900 can be attributed in some degree to predictions of depletions or exhaustion. It was the fear of forest depletion and its attendant evils that led the American Association for the Advancement of Science in 1874 to urge Congress to appoint a forestry agent, which was done two years later.[15] The same incentives contributed to the organization of the American Forestry Association in 1875. The importance of setting aside reserves to prevent despoliation was a factor in getting Congress to pass legislation in 1891, empowering the President to withdraw land from the public domain.[16] It was under this legislation that Presidents Harrison, Cleveland, and McKinley set aside several million acres of forest reserves.

The inaccuracy of these early prophecies is obvious. At best they were little more than intelligent guesses; at worst they were pure products of the imagination. The authors were laboring under two serious handicaps; not only was there no very good basis for estimating future rates of exploitation, but the knowledge of the extent and nature of our natural resources was highly imperfect.[17]

[14] *Proceedings of a Conference of Governors* (Washington: Government Printing Office, 1909), p. 52.

[15] The Association's resolution to Congress read in part: ". . . the preservation and growth of timber is a subject of great practical importance to the people of the United States, and is becoming every year of more and more consequence, from the increasing demand for its use; and that while this rapid exhaustion is taking place, there is no effectual provision against waste or for the renewal of supply." *Proceedings of the American Association for the Advancement of Science* (1874), p. 38.

[16] Representative Payson of Illinois arguing in favor of granting the President power to set aside reserves, stated: "There are sections of the country now covered with timber which is being rapidly diminished partly by fires . . . partly by being cut to be used as lumber." *Congressional Record*, Feb. 28, 1891, p. 3614.

[17] Professor Shaler pointed out this latter difficulty in the Preface to his well-known book, *Man and the Earth*, published in 1905 (New York: Fox, Duffield and Co.). "It will

II

The conservation movement and the history of prophecies related to them entered a new phase during the first decade of the twentieth century. Not only did scientific associations and government officials continue to issue warnings, but there was a veritable flood of magazine and newspaper articles and editorial comments pointing out the dangers of resource depletion and the necessity of preserving our natural heritage. No small credit for a quickened interest in conservation problems should go to President Theodore Roosevelt, who added his enthusiasm and the full weight of his office to the efforts of such leaders as N. S. Shaler, B. E. Fernow, J. W. Powell, Gifford Pinchot, R. C. Van Hise, and others.[18]

The high point in the President's efforts to popularize the problems of conservation came with the calling of the famous Governors' Conference, which met at the White House in May, 1908. This conference was attended by a very distinguished group, including state governors, cabinet members, Supreme Court justices, congressmen, and representatives of scientific societies. The prestige of several famous names was given to some interesting prophecies that were made during the meetings. The President, in his address of welcome to the delegates, spoke of " . . . the enormous consumption of . . . resources and the threat of imminent exhaustion of some of them due to reckless and wasteful use."[19] Andrew Carnegie, speaking to the same group, thought that our coal might be gone at the end of two hundred years, and the best half of our iron ore consumed by 1938.[20] James J. Hill said:

> The most favorable view of the situation forces the conclusion that iron and coal will not be available for common use on anything like the present terms before the end of this

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be noted," he writes, "that statements [in the book] concerning the mineral and other material resources of the earth are not supported by statistics set forth in these pages. They thus lack the apparent authority which such presentation would have given them.... The truth is, however, that although the earth's stores of value to men can be estimated in general terms, there is yet no sufficient basis for accurate quantitative reckonings. Thus it is that the statements in this book should be taken as the judgment of an observer who has endeavored to inform himself as to the resources of the earth of value to men, who is confident that in the general terms in which these are stated, they have value as guides to conduct." Pp. v-vi.

[18] The President's responsiveness to predictions of scarcity is well illustrated by the following incident described by C. R. Van Hise. Writing in the *Annals* in 1909 he pointed out that American phosphate supplies were in danger of being exhausted. He continued: "During the summer of 1908 the attention of President Roosevelt was called to the facts presented in this paper, and it was urged that the western phosphate lands now owned by the government should be withdrawn from private entry until such a time as legislation could be secured to permit their exploitation on a lease system. . . . On December 9, 1908, the phosphate lands of the West were formally withdrawn from private entry." *Annals of the American Academy of Political and Social Science,* Vol. 33 (Jan.-June, 1909), p. 223.

[19] *Proceedings of A Conference of Governors* (1909), p. 6.

[20] *Ibid.*, pp. 16-17.

century; and our industrial, social and political life must be readjusted to meet the strains imposed by new conditions.[21]

These meetings met with almost unanimous approval and widespread publicity. Statements of the dangers of resource depletion by such important as well as practical men as Hill and Carnegie must have done much to lift the curse of the theorists and academicians in the minds of a great many persons. In spite of their prominence, however, Carnegie and Hill both had to rely on generally inadequate data.

Of greater interest in the evolution of the methods of prophecies in the field, therefore, was the *Report of the National Conservation Commission*, published in February, 1909.[22] The Commission had been appointed by President Roosevelt, immediately following the White House Conference. One of its duties was to prepare a report on the extent and nature of the natural resources of the country, and to advise how they might best be utilized. In its work the Commission, under the chairmanship of Gifford Pinchot, depended largely upon various governmental agencies for information.

The Report was the first comprehensive survey that had been made of our natural resources. A product of the leading authorities of the time, it represented a serious attempt to put speculation and comment about them on a firmer statistical or factual basis than had been previously possible. Most important, for the purposes of this paper, are the prophecies about the future length of life that were included in a number of the individual reports.

The main topics treated by the Report were waters, forests, lands, minerals, and national efficiency. In respect to some of the items under these main headings, either the question of exhaustion or depletion was not involved or no predictions were made. Definite prophecies were made, however, about coal, iron ore, petroleum, natural gas, and phosphate rock. In the case of forests, while no explicit statement regarding their future period of usefulness was made, there was an implicit prognostication in the data presented.

The section on coal was prepared by Marius R. Campbell and Edward W. Parker, of the U. S. Geological Survey.[23] Basing their conclusions on recently made surveys the authors stated, "The total reserve of easily accessible and now available coal is estimated at 1,382,780-000,000 tons."[24] Future production was figured by extrapolating a curve based on the rates of increase that had been made during the four

[21] *Ibid.*, p. 66.
[22] Published as *Senate Document* No. 676, 60th Congress, 2nd Session, hereafter referred to as *Report*.
[23] Their report was supplemented by *Estimates of Future Coal Production* drawn up by Henry Gannett of the same bureau.
[24] *Report*, Vol. III, p. 428.

twenty-year periods beginning in 1828 and ending in 1907. Applying this result to the existing reserves it was concluded: " . . . the easily accessible and available coal will be exhausted about the year 2027, and all the coal about the middle of that century."[25] This period might be extended. They thought:

> If all the latent water power in the country were harnessed within the next twenty years, it would probably prolong the life of the coal supply by about 80 years. If the production and transportation were relieved of all waste within twenty years, the coal supply would last twenty years longer."[26]

Certain qualifications were put upon this estimate. It was recognized, for example, that the data used as a basis for future rates of consumption were few; but said the authors: "They are, however, all that we possess and the foregoing is probably the best way to use them."[27] The possibility of coal exhaustion at worst some 119 years in the future was not especially alarming. But it was a sobering idea that this important mineral might be seriously depleted within the span of a few generations, a short time in the life of a nation.

Petroleum was the second mineral considered by the Report of 1909. David T. Day of the U. S. Geological Survey, who prepared this section of the Report, commented:

> Regarding the limits of time within which the present supply (of petroleum) will be exhausted, it is clear that considering the minimum quantity of petroleum in the United States as 15,000,000,000 barrels, and continuing the present rate of increase in production, the supply will be exhausted in 1935. If the present annual production were continued without increase, 90 years would be required to exhaust this estimated minimum quantity. A reasonable view of the situation makes it probable that the present annual rate of production will be increased slightly through developments of Illinois, Oklahoma, and California, but that within a very few years a marked decline will be noted, and this will continue with . . . an insufficient quantity for the legitimate demands of industry after another decade . . . except as supplemented from new fields.[28]

While the foregoing prophecy was hedged by reference to the possibility of new fields, its tone and the evidence advanced in other parts of this section clearly show that the author was not especially sanguine about the discovery of new fields.

In respect to natural gas, the 1909 Report predicted:

> . . . in view of the fact that the known productive areas are limited and the quantity of gas produced in a number of the older fields is diminishing, it is safe to predict that within twenty-five years the known fields will be exhausted.[29]

The material on iron ores in the Report, written by W. C. Hays, of the U. S. Geological Survey, was very carefully prepared, and was presented only as a first approximation of our iron ore supplies. Total

[25] *Ibid.*, Vol. III, p. 429.
[26] *Report,* Vol. III, p. 445.
[27] *Ibid.*, p. 445.
[28] *Report,* Vol. III, p. 460.
[29] *Report,* Vol. I, p. 101.

available supplies were estimated at 4,788,150,000 tons.[30] A qualified prophecy concerning the potential life of these ores concluded:

> . . . that the present rate of increase cannot continue even for the next thirty years, and that even before 1940 the production must have already reached a maximum and begun to decline, and a very large use must be made of low-grade ores not now classed as available.[31]

The total reserves of high-grade phosphate rocks was estimated by F. B. Van Horn, of the U. S. Geological Survey, at 221,500,000 tons, although the low-grade deposits, consisting of rock with less than 60 per cent phosphate were thought to be very large. On the assumption that the average rate of increase in consumption of 117 per cent which had occurred during each of the previous two decades was to continue:

> . . . it will require just twenty-five years to exhaust the available supply of (high grade) phosphate rock in the United States. The annual production, at the above rate of increase, will be approximately 17,000,000 tons in 1932. There is still a chance of the discovery of more phosphate fields . . . but based upon present available deposits the life of the phosphates must at best be a short one.[32]

The most comprehensive section in the whole Report was the one dealing with forests. The problem of forest preservation was visualized as extending far beyond the question of the supply of timber. "Forests," says the Report, "not only grow timber, but they hold the soil, they conserve the streams. They abate the wind and give protection from excessive heat and cold. Woodlands make for the fibre, health, and happiness of each citizen of the nation."[33] The dangers to the maintenance of our forests is indicated by the fact that, in addition to losses from fire, parasites, and turpentining, some 23 billion cubic feet of wood were being removed annually, while the yearly growth amounted to only 7 billion cubic feet.[34]

In spite of the implications which might have been drawn from the foregoing, no attempt at prophecy was made beyond the not unoptimistic conclusion that:

> By reasonable thrift we can produce a constant timber supply beyond our present need, and with it conserve the usefulness of our streams for irrigation, water supply, navigation, and power. Under right management our forests will yield over four times as much as now. We can reduce waste in the woods and in the mill at least one-third, with present as well as future profit. We can perpetuate the naval stores industry. Preservative treatment will reduce by one-fifth the quantity of timber used in the water or in the ground. We can practically stop forest fires at a total yearly cost of one-fifth the value of the standing timber burned each year. We shall suffer for timber to meet our needs until our forests have time to grow again. But if we act vigorously and at once we shall escape permanent timber scarcity.[35]

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[30] *Ibid.*, Vol. III, p. 511. Availability was measured by costs of ore delivered at the furnace and by costs of reduction. Many factors, including iron content and amount of impurities, would affect the availability of ores. It was recognized that in the future, availability could change markedly. *Ibid.*, pp. 486-488.

[31] *Ibid.*, Vol. III, p. 520.

[32] *Ibid.*, p. 567.

[33] *Report*, Volume I, p. 51.

[34] *Ibid.*, pp. 54-55.

[35] *Report*, Vol. I, pp. 72-73.

The Report was presented by the Commission to Second White House Conference of Governors that met in December, 1908. That body unanimously approved the findings of the Commission and it was then presented to the President who in turn reported it to Congress. The Report (including the prophecies), at least in its summary form reached a large number of responsible persons. It gave further weight to the statements regarding the necessity of resource conservation that had been made at the first White House Conference, and can be given some credit at least for such tangible results as the appointment of conservation committees by some 36 states.[36]

Probably the best contemporary estimate of the Report of the National Conservation Committee was given by Van Hise, who said of the document:

> This inventory is of course but an approximation to the truth but it is an immense advance over guesses as to the natural wealth of the nation. It has furnished a basis for quantitative and therefore scientific discussion of the future of our resources.[37]

In view of the admittedly tentative character of the Commission's Report it would be unfair to be too highly critical of the prophecies contained. But it is to be noted that the authors were not very good prophets for reasons that are likely to affect the validity of any predictions in this field. Not only did the estimates of the quantity of resources vary considerably in their reliability, but with one exception the predictions concerning the future rates of exploitation proved to be far too generous. For several decades prior to 1909, production of many of our natural resources had expanded very rapidly and there was a strong tendency to assume that some such rates of expansion would be projected into the future. In the case of coal, for example, while estimates of reserves proved fairly accurate the Report indicated that production for the period 1908-27 might exceed 21 billion tons, and in the succeeding twenty years could be over 52 billion tons.[38] Actual production for the first period was slightly over 11 billion tons, and is unlikely to exceed that figure during the period ending in 1947.[39] Iron ore production

[36] The influence of the *Report* was less than it might have been if the anticonservative elements in Congress had not prevented the printing of a popular edition. Cf. Richard Lieber, *America's Natural Wealth* (New York: Harper and Brothers, 1942), p. 213.

[37] Charles Richard Van Hise, *The Conservation of Natural Resources in the United States* (New York: Macmillan Co., 1911), p. 9. It was probably through this book that the *Report* exercised its greatest influence. For some twenty-five years Van Hise' volume was the leading authority on the problems of conservation and was used in numerous courses on the subject given in colleges and universities. Van Hise acknowledges his debt to the *Report* of the National Resources Commission by saying: "Had this report not been issued, it would not have been possible to write this book." *Ibid.*, p. vi. It should be noted that Van Hise was more cautious about predicting early depletion or exhaustion of resources than the authors in the *Report*.

[38] *Report*, Vol. III, p. 444.

[39] Data taken from *Statistical Abstract of the U. S.* (Washington: Government Printing Office, 1924 and 1942).

for the years 1909-40 were 1,621,559,000 tons instead of the 6 billion tons which it was thought might be required for the period.[40] Meanwhile actual production had been offset by new discoveries and techniques to the point that there were thought to be some 4,400,000,000 tons of iron ore reserves in 1934, judged by the current standards of availability,[41] compared with the estimates of 4,788,150,000 tons in 1909.

The production of phosphate rock between 1909 and 1934 came to something over 77 million tons instead of the 221,500,000 tons it was thought might be used.[42] Furthermore new discoveries added to the reserves so that over 6 billion long tons of phosphate rock (containing 55 per cent or more of tricalcium phosphate) were available in 1936.[43] In respect to the production of petroleum, however, the Report of 1909 showed a high degree of accuracy. It was estimated that 15 billion barrels of oil would be produced between 1909 and 1935. Actual production was approximately 15,390,000,000 barrels. Against this success, however, it should be noted that, according to the prediction of 1909, all of our oil would be gone in 1935, whereas proved reserves on December 31, 1933, were approximately 13,360,000,000 barrels.[44]

The possibilities visualized in 1909 for the forests were scarcely realized by 1936. Whereas it had been hoped that timber production would increase to 28 billion cubic feet, production in that year was slightly in excess 11 billion.[45] The general situation had been greatly improved, however, as the drain was about 13½ billion cubic feet, over 10 billion cubic feet less than was being removed at the earlier date.[46]

III

While individuals, organizations, certain newspapers and magazines, and teachers continued to sound warnings of the danger of exhaustion or depletion, public interest in the conservation tended to slacken, especially after Taft's term in office.[47] During these years, groups hostile to the movement were able to develop considerable opposition. World War I diverted attention in other directions, while the Harding, Coolidge, and Hoover administrations were not inclined to push the idea of restricting the use of resources. Other forces were operating. Following the War there was a noticeable reduction in rates of con-

[40] *Report*, Vol. I, p. 103.
[41] Kenneth Leith and Donald M. Liddell, *Mineral Reserves of the United States and Its Capacity for Production* (Washington: Government Printing Office, 1936), p. 96.
[42] *Report*, Vol. III, p. 567.
[43] *Ibid.*, p. 197.
[44] *Ibid.*, p. 178.
[45] *Yearbook of Agriculture* (Washington: Government Printing Office, 1940), p. 481.
[46] "A National Plan for American Forestry," Senate Document No. 12—Separate No. 3 (Washington: Government Printing Office, 1933), p. 216.
[47] Cf. Roy M. Robbins, *Our Landed Heritage* (Princeton: Princeton University Press, 1942), Ch. 22-24.

sumption of many raw materials. Improvements in technology had made possible a reduction in the wastes involved in production, had increased the effective use of materials, and had made possible the exploitation of lower grades of resources or of substitutes.

Concern over the possible exhaustion of domestic petroleum supplies was an important exception to the general trend of public interest during this period.[48] The strategic significance of oil for war as well as its potential uses in peace had been clearly demonstrated between 1914 and 1918. Current estimates of reserves indicated the possibility of an early depletion of American resources. It was the fear of this possibility that led American oil companies, backed by the government, to seek oil concessions in other parts of the world.[49] Prophecies in respect to the early end of our petroleum supplies have fortunately proved wrong largely because of a failure to anticipate the discovery of new fields or of drilling deeper into old ones. Controversy over the imminence of petroleum exhaustion has continued to rage down to date.[50]

Public interest was again stimulated in the subject of conservation after 1932. In some instances the advent of the depression in 1932 had brought on increasing waste in the exploitation of certain raw materials by prompting producers to give up more expensive processes or to concentrate on the better quality supplies. Franklin D. Roosevelt brought to The Presidency an enthusiasm for conservation that rivaled that of his famous predecessor of the same name. Like Theodore Roosevelt, he made a series of spectacular moves which tended to bring the whole subject of resource utilization to the attention of the country, including the establishment of the Civilian Conservation Corps and the appointment of the National Resources Board.

The prophecies of exhaustion or depletion of our natural resources that have been made during the last decade show certain changes compared with earlier predictions. In general they are much less spectacular in their estimates of future rates of exploitation.[51] Better estimates of the extent and nature of resource, as in the cases of iron, coal, phosphates, forests, have improved the prospects of better judgments.

[48] According to Herbert Feis: "In 1917-19, the United States passed abruptly from complacency to frightened doubt as to the adequacy of its oil reserves." *Petroleum and American Foreign Policy* (Stanford University: Food Research Institute, 1944), p. 3.

[49] *Ibid.*, pp. 3-11, Cf. John Ise, *The United States Oil Policy* (New Haven: Yale University Press, 1926), Ch. XXIX.

[50] Cf. Wallace E. Pratt, *Oil in the Earth* (Lawrence: University of Kansas Press, 1943).

[51] In the case of coal, for example, while estimates of reserves agreed fairly closely with those made in the 1909 *Report*, a prediction was made in 1936 which indicated that bituminous supplies would last between 2500 and 4000 years, depending upon the extent they were drawn upon for the production of petroleum substitutes. Leith and Liddell, *op. cit.*, p. 46.

These modifications have by no means weakened the case for conservation. While iron ores are considered sufficient to supply needs for hundreds of years, certain types of high grade deposits are being depleted at a fairly rapid rate.[52] A similar situation applies in respect to high grade coal close to the market.[53] As has already been noted the drain on our forests exceeds replacement by a margin that leaves no room for complacency. The advent of World War II, with its terrific toll of our resources has already deepened general interest in the future supplies of our resources.

IV

It may be noted in conclusion that the prophets in the field of resource exhaustion or depletion have not been very accurate in their predictions. While a lack of accurate estimates either of the extent of resources or of future rates of use did not embarrass those who were interested in propaganda statements, these deficiencies made it largely impossible for the most impartial observers to forecast correctly. From certain points of view these inaccuracies have been quite unfortunate insofar as they cast discredit on the conservation movement and made it difficult to secure more effective public policy. In spite of the difficulties met in the past there is no reason to assume that similar predictions will not be made in the future. In spite of improved knowledge of our resources it seems probable that the imponderables involved in future rates of use will continue to make the task of the prophets a hazardous one.

[52] *Ibid.*, p. 98-99.
[53] *Ibid.*, p. 46.

INTERNATIONAL POLICY ON RENEWABLE NATURAL RESOURCES

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The sentiment boldly expressed in the Atlantic Charter—that all men in all lands have a right to live out their lives in freedom from fear and want—has made an unusual appeal to many who do not understand its full economic implications. Students and statesmen have long ago recognized this fundamental generalization. Neither should we underestimate the widespread awareness and understanding by different levels of society of the place of natural resources in a world that will attempt to realize these ideals.

The probable realignment of political boundaries and the spectacular advances of science and technology further emphasize the significance and place of raw materials in a total world economy. Running through recent statements of international proposals is the expressed hope that geographic accident will not be permitted ultimately to determine the economic status of mankind. Signatories to the mutual agreements in pledging themselves to the cause of elevating the living standards of the common man everywhere, reflect this same concern, which ultimately hinges on the use and distribution of the world's natural resources.

There is further reason for carefully considering natural resources at this time. War has always wasted natural resources. Modern methods and modern tools of warfare have drawn more heavily on minerals, plants, and animals, and they are being consumed in this war at a faster rate and in a greater variety of forms than in any previous conflict. At the end of actual military action the world's store of natural resources will probably be found at a lower ebb and the demands upon them greater than ever before.

It might be well to remind ourselves that these resources are not distributed evenly over the world and that many countries possessed of them are unable to foster their development. Some countries which have dissipated this wealth may not be in a position to restore them to their original productivity. These conditions have meaning for the world as a whole. They also are of concern to individual nations. One may expect land-poor countries which cannot raise food for themselves to look covetously on the good agricultural soils that are used wastefully in other countries. Destruction of forests in Europe and America should be a concern to timber consumers of Britain whose own forests can normally supply less than 10 per cent of the wood she needs and

probably not 2 per cent of that needed in the next twenty years. This general observation might then be made: mistreatment of natural resources may not be obvious for many years. The effects are cumulative but ultimately the spread of this cumulative damage widens to encompass much more than the geographic area of its initial occurrence.

The purpose of this paper is to outline some general plans that might be considered in international policies on renewable natural resources, to suggest fields in which policies might appropriately be developed in both the national and international spheres, and to explore feasible ways of effecting policy objectives under the assumption that an international machinery is organized for such purposes.

It might be well to define the term "renewable natural resources." These are the resources which, with or without man's assistance, are capable of being replenished indefinitely. In general, they are organic materials derived from the soil, water, and atmosphere. In the last analysis, these resources cannot be synthesized. They depend on soil and its treatment. Soils and waters generally are not consumed in the sense that coal, iron, and petroleum are. But their capacity to support plant and animal life useful to man can be destroyed. Once destroyed, their productivity may sometimes be renewed but the process is usually slow and costly. The supplies of renewable resources existing at any given time—grass, food plants, timber, animals, fish—are perishable. If not utilized within a short interval, ranging from a few weeks for some to several hundred years, as with growing forests, they are lost. If lost, their place may be taken by new supplies of the same or different plants or animals and the quantity available for use may remain fairly constant. This ecological process of succession takes place in many virgin forests. Trees take root, grow to maturity, die, and are replaced by other trees in a continuous cycle. The volume of timber may remain about the same throughout a hundred years but the century's growth of wood, unless currently harvested, is lost so far as satisfying human wants.

Renewable resources, unlike the nonrenewable ones, can be used without diminishing the supply available for future generations. To illustrate, in a managed forest it is possible to cut and use, during a hundred years, as much wood as grows, and in the end to have as much timber standing as there was at the beginning. It is equally true that cropland wisely farmed can be maintained at a stable productive level or even be improved.

Much has been said about the wizardry of chemistry and its ability to synthesize an unending list of products. On closer examination one will find that the basis for many of these synthesized products must come from our renewable resources.

There is another aspect of the value of renewable resources. They can advantageously be used as substitutes for more precious exhaustible resources and thus prolong the supply of the latter, or to supplement them in emergencies as, for example, in the present war. We are now using wood in place of metals and solid and liquid fuels of vegetable origin in place of coal or petroleum.

Unfortunately the renewable resources of the world have not generally used in an orderly, well-balanced manner. Over large areas they have been wasted by nonuse and elsewhere they have been exploited so wastefully that productivity of the land has been gravely impaired. This is true of arable soils, grazing lands, forests, and inland waters.

The current war, insofar as it has intensified this problem, will present the task of rehabilitating crop, pasture, and forest lands in many war-ravaged countries and beyond their own means or capacity to do so. For a time at least, some of these countries may have to look to other parts of the world for food, fiber, and wood that they need and formerly produced at home. They may look to countries that exported such materials before the war. The question then arises as to whether the resources of those countries will permit larger exports or even as large as in the past.

Before the war Russia and Poland exported large quantities of timber to central and western Europe. Will these countries be able to do so in the immediate future? Some have assumed that the United States and Canada will be able to increase their lumber exports so as to supply a large part of the timber required for reconstruction in Europe and Asia. But it is necessary to consider whether the United States' and Canada's own probable requirements and the capacity of their industries to increase output will make this possible. What is even more important, one must not ignore the possibility that cutting so much timber might seriously impair the future production from North American forests.

On the other hand, some countries have undeveloped resources which could be used to supply their own needs and to provide a large volume for export. Orderly development of these resources would benefit both the countries that own them and those that need the products. To what extent these countries need help in capital, knowhow, technical and skilled workers, is a part of the international problem.

To correct the diseconomies that have characterized the misuse of renewable resources will require as a first step the consideration of an over-all goal. This goal, expressed in economic terms, is allocation of the resources so as to maximize their contribution to economic well-

being. In the language of the common man, the goal is to devote the renewable resources to their most productive use for the greatest good of the greatest number. This objective requires that resources be allocated among their alternative uses so that *"equal amounts of resource yield equivalent returns in all fields."* The term "fields" embraces a "temporal" as well as a "product and service" connotation. A condition short of the optimum can obtain just as certainly with an improper balancing of the present against the future as by an erroneous balancing between different kinds of goods and services available at any one period of time.

As in other fields, the discussion of international policies concerning renewable resources must start with the consideration of individual national policies. To attain sound international trade and comity, national and international goals may closely parallel each other. Thus a high goal of well-being for a given nation will depend upon its co-operation with other nations. We may assume that each nation will depend not only upon its own achievements but also on its neighbors, and in the last analysis the progress of each nation individually becomes the limiting factor to the success of international co-operation.

Though national and international goals may be the same, national and international policies may differ. Individual nations' policies are determined within an institutional framework, within which policies may be put into effect. For example, the policies of a country with a high degree of collectivism, if maximum benefits from renewable resources are to be realized, may be radically different from those set up in countries where a price system and individual initiative control its economy.

It is not necessary to discuss the varying characteristics of all national economies in their relation to the desired treatment of renewable resources. But, to illustrate the type of approach that must be made, brief consideration may be given to some of the institutional peculiarities prevailing in nations where the organization and use of renewable resources depend on the actions of individual enterprisers who are guided by profits and the market. Several of the most important of these are: (1) Diseconomies inherent in a highly competitive system; (2) differing rates at which individuals and society discount future values; (3) strong persistence of habit among users of renewable natural resources; (4) combination of a "mode of life" with business pursuits; (5) joint returns, some of which are pecuniary, others yielding only collective benefits not priced in the market; (6) lack of an adequate system of social cost accounting to insure keeping the resource capital intact.

While monopolistic tendencies may characterize the development

of stock resources, quite the opposite condition prevails in the renewable category. In fact, many agricultural operations provide, in the absence of intervention, the best examples of free competition. The wasteful consequences that flow from the operation of an unbridled competitive system do not need to be enumerated. A multiplicity of individual entrepreneurial units, many of which are inadequately equipped with respect to technical knowledge, managerial skill, and knowledge of the market, and insufficiently supplied with working capital, produces conditions which must be recognized in policy formulation. Small business units operating largely on a hand-to-mouth basis are unable to bear many of the inherent risks and to "wait" when waiting would be socially desirable. Another characteristic of competition is the tendency of allowing the least scrupulous operator to set the pattern of industrial practice. While scrupulous has an ethical flavor it describes well the point at issue. The influence of the sweat shop operator, the parasitical employer, or the lumberman who cuts the forest destructively, has been felt keenly by those businessmen endowed with a deep sense of their responsibilities. The deficiencies inherent in a competitive system suggest the need for policies and programs in the fields of long- and short-term credit, insurance, management aids, blocking of holdings into economical-sized units, assistance in supplying market information, providing an adequate channel of concentration and distribution, and imposing such regulatory measures as may be necessary to improve and stabilize agricultural and industrial practices.

An industry composed of a multitude of operating units, essentially one-man businesses, will tend to discount future values at higher rates than those used by society. This attitude of the operator is perfectly understandable. His future is uncertain, and the question of what there will be left of the natural resources for posterity is not an impelling motive in guiding present actions. The statesman—the policy maker—however, cannot assume the attitude of an individual. He is obliged to weigh the future results of present resource use. It is his obligation to inaugurate such policies as may be necessary to offset the individual's tendency to hold in too light esteem the long-term benefits of a renewable resource and to strive for sustained yield, as we say in forestry. In order to offset this propensity of natural persons to overemphasize the present, it may be necessary to formulate national policies with respect to interest rates, payments for the observance of desired practices, and educational programs designed to sharpen the social consciousness of individuals, and encourage those forms of business organization which have perpetual life, or modify the rights of individuals with respect to resource ownership.

The manner of using natural resources, especially those in the

renewable class, tends to become a part of the social mores. For example, planting the straightest row of corn in the community may continue to be a mark of distinction long after it is known that soil conservation requires contour cultivation. The 300-year old custom of annual burning in the naval stores forests of the Southeast still persists in some sections although it is contrary to well-established techniques of good forest practice.

Agricultural economists have recognized that many farmers in a desire to pursue farming as a mode of life rather than as a livelihood present special problems in land management and handling of renewable resources. Frequently these cases present uneconomic units and destructive resource exploitation. Attempts to ameliorate the condition of the farmers and to prevent despoliation of the soil resource has in late years been given special attention in many countries. How to stimulate and maintain permanent interest in better and fuller use of natural resources on such farmsteads will continue to be a vexing problem. The individual farmer, grazier, or forest land owner, as noted, is interested largely in cash crop returns and not particularly in collateral benefits inherent in renewable resources. It is, therefore, necessary to give special consideration to joint returns from such resources. Such benefits as stabilization of soils, regulation of streamflow, and groundwater levels, habitat for wildlife and fish, and recreational facilities often have greater social value than the immediate returns from the cash crops.

Under such conditions, using a forestry illustration, to permit market operations to determine the nature of forest practice might result in returns far short of the maximum. More attention must be given to these general benefits as they may be affected by the manner in which a particular resource is used and public policies must be adopted to insure that either individuals or society incur the costs necessary to provide the desired benefits.

Our assets in renewable resources can obviously be dissipated by inadequate attention to costs, in the same manner that an imprudent businessman may lose his plant through lack of attention to depreciation. In handling natural resources we frequently diregard the true operating position of the enterprise as long as gross income exceeds operating costs, disregarding the necessity for maintaining the capital base of the business. The more prudent approach—adoption of a sufficiently rigorous system of social accounting to insure the maintenance or building up of our renewable resource assets—is much more formidable than that confronting an individual businessman. After all, individuals as such are not held responsible for all the social results of their actions. But, if these results operate to the disadvantage of

society, society itself must apply positive action to place responsibility for incurring these social deficits. In recent years it has been recognized that farmers, loggers, fishermen, or others who deplete resources for profit, should be required to alter their practices in such a way that the social interest is insured. In other cases, where the desired practice would be too costly for the individual to carry alone, public co-operation may be the proper policy. Those who have studied the forest problem in the United States have proposed a program of regulating cutting practices, compensating owners through co-operating with public funds for protection against fires, insects, and disease, in adjustments of inequitable tax burdens, in extension of credit, and other forms of assistance. It is proposed that where these aids are furnished, the operator should be required to provide society with benefits in the form of better management, protection, and perpetuity of the resource. This is nothing new. Many European countries long ago embarked on such plans for insuring the permanence of their renewable resources.

The starting point for international policy in the handling of renewable natural resources must be through action of each individual nation. But it does not follow that if each nation individually were able to balance the use of its resources in a way which would produce the maximum benefits for its national economy, the well-being of other countries, or of the world, would then be fully assured. Proper use of resources in a world economy would require a difference in levels of use among different countries, just as there are regional differences within any given country.

In the international sphere nothing will be accomplished unless machinery is set up in each country which will promote sound policies regarding its own renewable natural resources. Fortunately, such sound policies must be based on biological information and cultural operations which in themselves are not deep trade secrets. An exchange of such information between countries can be readily accomplished if the proper channels are created. There may be some difficulty in the interchange of information regarding processed goods from renewable resources. But even in this field greater exchange of information may in the long run prove profitable for all. In the international sphere, policies and programs of action designed to produce the most economical use of the world's renewable resources must include the exchange of information and, to a more limited extent, exchange of capital and products of natural resources. Those who have argued for a redistribution of renewable resources among nations through the drawing of new boundaries, or by the provision of colonial empires for the "have not" nations, are out of harmony with the concept of a sane world organization, where these results can be obtained by less drastic and more democratic methods.

We need, then, first a world fact-finding agency to ascertain and make available to all nations the extent, character, condition, and utilization of the world's renewable resources, following in a general way the pattern of the International Institute of Agriculture and the League of Nations. These agencies, in spite of numerous handicaps, made an excellent beginning on a program which was prerequisite for orderly development and use of the world's resources. Such a program must be carried on, with whatever modification and expansion that may appear desirable, by whatever world organization takes the place of the International Institute of Agriculture.

International collaboration has a wide field in a program to restore depleted or destroyed resources where this task is too great for the countries in which they are located. This is especially true where the resources have been depleted by war and where a large number of displaced and unemployed people exist who can be given jobs in such resource rehabilitation.

Another important field for international collaboration would be the opening up and development of unutilized resources. This applies particularly to the countries of the southern hemisphere and also in like manner but to a lesser degree in some of the northern countries. We must recognize that these resources will have to be made available if the pressure on sources that are now being utilized too intensively is to be relieved.

In opening up undeveloped areas the question of the movement and resettlement of people must be considered. In many instances it may be possible to relocate surplus populations by permanent emigration from crowded countries into those that have too few people to develop and utilize their resources. In other instances, the use of temporary or seasonal workers migrating from one country to another is feasible. In contrast to the development and exploitation of nonrenewable resources, renewable resources offer an opportunity of permanent settlement of populations. Well-planned agricultural or forest development can support permanent settlements, whereas Klondike mines are more likely to produce ghost towns unless there are other resources to support the local economy after gold deposits have been worked out. It is obvious that both temporary transfers of workers or permanent migrations of populations from country to country can best be controlled by international arrangements and policies.

Renewable resource policies in an economy of abundance for all countries can be translated into an expansion of international trade in natural resource products as well as in the raw materials themselves. Here again the approach must be international in scope, for it will require a reorientation of the trade policies of some countries to remove trade barriers and stimulate a desirable flow of goods from surplus to

deficit areas. The extent to which international commodity agreements will be needed to stabilize production and marketing of certain commodities must be frankly met. They have a place in a stable world economy. It is recognized that such agreements, to be sound in the long run, would include provisions against unfair competition through wasteful exploitation of the natural resources or the workers.

There is a further opportunity for international co-operation in collectively devising new and more efficient methods of production and utilization and collectively developing markets for old and new products. Such co-operation, to give an illustration, might be particularly effective with timber and forest products of tropical forests that are common to several countries. World markets would accept these products much more readily if they were better known and if they were sold under standardized names and uniform classifications and grades, instead of hit-and-miss sales of an unknown commodity. Such international co-operation is not new although it has been carried out more often by private business than by governments. Such commodities as coffee, sugar, and rubber have had their international associations and one of their major functions has been market promotion.

Most of the forms of international action that have been listed will require banking and credit facilities. The Export-Import Bank, with authority to finance some of these activities in the Western Hemisphere, is already in operation. Is it too much to hope that an international authority world-wide in scope will eventually be set up to finance resource development and use throughout the world? This war brings into focus one other matter for international policy regarding renewable resources. The matter of war reparations in kind is likely to come up soon after the fighting stops. It has already been considered. Some advocates of a hard peace would go so far as to punish the defeated nations by excessive drains that would seriously reduce the productivity of their natural resources. To do so might have an element of justice if those nations were the only ones that would be injured. As has been pointed out, however, the destruction of any country's productive resources in the end leaves the world poorer and will react more or less directly on many other countries. We can justify a certain amount of resource depletion as unavoidable in order to meet immediate and urgent needs for relief and rehabilitation. Wise statemanship through international agreement, however, will endeavor to hold this depletion to a minimum and will take steps to insure that these resources will be built up as soon as practical.

It would be futile to attempt to outline precisely a full program for international policy in the field of renewable natural resources. There is

much to be done if there is a will to do it. International machinery can be set up under a wide charter of authority. In the course of time, as such an organization would approach each successive problem, its influence would mold public opinion and action in member countries.

Those of us who have been working in the operating field of natural resources have frequently wondered why economists and political scientists have given such meager attention to resource depletion and its economic consequences. Perhaps the pressure of the present has turned to the consideration of immediate problems rather than to exploring ultimate problems. Immediate problems in the last decade have stemmed from apparent chronic overproduction and not because of scarcity. Perhaps this explains why economists have given fuller consideration to money and banking, labor, the business cycle theory, international trade, finance and organization, while the basic problems of renewable resources, indispensable as they may be to continued economic prosperity, have received rather scant attention.

As a biological worker, reading now and then economic treatises, I am impressed with the place given methodology in contrast to questions of policy. It appears as though theoretical economists have studiously avoided all matters not strictly amenable to valuation in the market. Those of us who must depend on economics hope that attention can be turned away from economics as a doctrine and emphasis placed on economics as a method of approach towards the formulation of sound public policies. Indeed, the complex problems of renewable resources in the international field will not be solved satisfactorily without a sound economic approach.

FOREST PRODUCTS IN A WORLD ECONOMY

By Egon Glesinger
Comité International du Bois

Man's need for wood is almost as universal as his dependence on food. No matter where he lives, he can scarcely spend a day without using forest products in some form. Estimated at 5 billion gold dollars and 1,300 million tons, the world's annual wood harvest is outranked only by milk in value, by coal in weight, by no other raw material in versatility.

This great versatility on the other hand is probably one of the main reasons for the insufficient appreciation of the role of forest products in world economy. It has become a well-established custom to treat firewood, lumber, pulp, turpentine, and plywood as separate commodities and to overlook that they are products and by-products of the same forest crop. The League of Nations' report on raw materials (1937) does not even contain the term "forest products" but only separate—and very incomplete—figures for woodpulp production and international wood trade.

International trade in forest products—the only aspect for which world statistics are available—does not reflect their full importance. Covering approximately one-forth of the earth's surface, forests are found in almost every land and supply 92 per cent of the world's wood consumption from national sources. Only 8 per cent of the annual wood cut serves for export purposes. Yet this 8 per cent, valued for 1937 at about 500 million gold dollars, has enabled forest products to rank with cotton and petroleum among the three leading raw materials and foodstuffs in international trade. With 40 million tons, forest products are among the outstanding customers of international railway and shipping lines.

Cedar logs from the Lebanon, ebony from Ethiopia, exotic timbers from distant shores have been shipped between countries almost as long as international trade has been carried on. Trade in such specialty woods continues; but their volume accounts for less than 5 per cent of total wood trade.

The bulk trade in wood dates back only about a hundred years, when Britain and other nations in Western Europe found that their degraded and depleted forests were insufficient to meet the rapidly rising requirements of their industrial civilization. What they needed was obviously not fuelwood, which has always remained a local commodity, but boards, battens, and deals—which the Americans call lumber—for the roofs, floors, and walls of their houses, props for the

support of their coal mines, ties for the understructure of their expanding railway systems. Soon sawn softwood emerged as the outstanding single wood item in international trade. By 1880 world exports had reached 7 million tons; in the next thirty years they trebled, attaining almost 20 million in 1913, a record which has never been substantially surpassed.

Five countries were the supply centers of this large new trade. In 1913 Russia (with Finland) contributed roughly one-third of the world's softwood lumber exports, the United States one-fifth, Sweden, Canada, and Austria together 40 per cent, leaving only 7 per cent for the rest of the world. On the receiving end, Britain accounted for one-third, western Europe and the Mediterranean took about 40 per cent. The remainder went to South America, the Far East, and the Pacific area, and came almost entirely from the United States and Canada. Despite the rapid expansion, a fairly regular pattern of trade had established itself. Competition between exporting countries was keen but not excessive. Relations between buyers and sellers rested on stable foundations.

When international exchanges were resumed after World War I, the lumber trade was dominated by three major facts. Stocks were low and reconstruction requirements created urgent import demands. Russia, torn by the aftermath of revolution, had disappeared as a lumber exporter. Border revisions and the creation of new states had raised the number of Europe's major lumber exporting countries from three to nine. Little aware of their economic limitations and hard pressed for foreign exchange, the successor states to the Austro-Hungarian Empire rapidly expanded their lumber exports to three times the volume attained by their predecessor and made their appearance as large suppliers in England and Western Europe, where previously Central European softwoods had scarcely been known. A similar, although more moderate, rise took place in the lumber supplied from the newly created Baltic States and Finland. Most of these additional lumber exports could be upheld only by means of excessive cutting in the producing countries; they had become possible on account of the extreme depreciation of certain currencies and the absence of Russian woods. But despite the highly temporary nature of these factors, there was a general tendency among exporters and importers to regard these changes as establishing the new, permanent pattern of international lumber trade, until it suddenly crumbled after 1929.

The collapse was particularly severe because it resulted from the coincidence of two independent developments. One of them was the general depression which reduced building activity and hence lumber import requirements to a fraction of what they had been. Simultaneous-

ly, the Soviet Union, which had gradually resumed lumber exports, raised its shipments from 1 billion board feet in 1928 to 2 billion in 1930, and did nothing to discourage rumors that it was preparing to double that figure irrespective of the falling demand. The catastrophe which engulfed the world's lumber trade is best illustrated by the fact that the London price for softwood fell within three years from $80 to $30 per thousand board feet.

Tens of thousands of workers out of jobs, innumerable bankruptcies among lumber importers and producers (Ivar Kreuger included), losses by London investment bankers estimated at several hundred million dollars were only the first result. To protect their forest industries and trade against complete ruin, Finland depreciated her currency, France introduced almost prohibitive import barriers, England decreed an embargo against Russian wood, the Ottawa agreements established an imperial preference in favor of Canadian wood imports to Britain, and Dollfuss persuaded Mussolini, Horthy, and Briand to grant preferential duties and railway tariffs for Austrian woods, since Hitler had closed the German market to Austria's lumber exports and was now calling on that country's wood manufacturing peasants to overthrow their government and "return to the Reich."

It was to stem that rising tide that the League of Nations Economic Committee called representatives of all the major lumber importing and exporting countries to a meeting as early as April, 1932. After two days the conference adjourned without results, first because the latest available trade statistics were two years old and provided no suitable basis for specific discussions and second because the Scandinavian lumber exporters preferred chaos to the threat of government interference. But two months later another international wood conference, sponsored by Central Europe's five lumber exporting countries (Austria, Poland, Czechoslovakia, Roumania, Yugoslavia) and France was held in Vienna and resulted in the creation of the Comité International du Bois, a semiofficial body with the main purpose of developing a regular, up-to-date statistical service. Headquartered in Vienna, CIB went to work at once and the following spring it already supplied the World Economic Conference in London with a statistical memorandum to serve as the basis for an international lumber agreement.

When the failure of this renewed attempt demonstrated that the Scandinavian countries were determined to frustrate any government sponsored regulation scheme, CIB started to organize international lumber co-operation outside of governments. Monthly statistical bulletins showing world wood exports were published. In December, 1933, and again in the fall of 1934 meetings were held, attended by representatives of all the leading lumber exporting and importing nations, to esti-

mate the import requirements of the coming year and to compare them with prospective export supplies. Another break in the markets in 1935 showed that these conferences were unable to exercise the stabilizing effect for which they had been intended. Desperate in their desire to restore confidence to their trade, Europe's timber exporters, aided by Britain's importers and agents spent the better part of 1935 in searching for the magic formula that would achieve that aim. The task was not easy. The importers insisted on binding commitments limiting forthcoming export supplies. Also, the Soviet Union, the only country for which such a commitment created no problem and which at the same time was the most dreaded exporter, had made it clear that Exportles (the All Union Timber Export Trust) was prepared to enter an international lumber export agreement, but only if all other exporting countries assumed equally binding obligations. Yet in countries like Finland, with thousands of independent lumber producers and shippers, such a commitment seemed almost impossible without government participation and this was precisely what Finnish exporters were determined to avoid.

In the end a way was found and on the 15th of November, 1935, an agreement was signed in Copenhagen between the nine countries which accounted for 95 per cent of Europe's softwood lumber exports. It fixed the export total practically at the figure of 1935 and assigned to each of the participating countries a share, which they guaranteed to observe as the upper limit of their lumber exports. While the Central European members of the European Timber Exporters Convention (ETEC) based their guarantee on a system of compulsory lumber export licenses, the Swedish and Finnish exporters associations had gone to the trouble of securing written undertakings, in which every single exporter agreed to keep his shipments within an allocated individual quota.

The ETEC was renewed from year to year. A meeting held every autumn in Stockholm determined the total export supply for the coming calendar year in accordance with estimated import requirements. This led to certain variations which however never exceeded 10 per cent. Shortly after the German attack on Poland the ETEC was discontinued.

The ETEC confined its decisions to lumber exports and took no action on output or prices. It also ignored a British request to give each major importing country a guarantee that exports to that country would not exceed a certain figure. Nevertheless as soon as it became known that the agreement had been concluded prices recovered rapidly and kept rising throughout 1936 and 1937. But in 1938 prices fell sharply again, despite ETEC's decision to reduce that year's quota by 10 per cent. This experience induced most observers, and especially the British trade press, to conclude that there had been much exag-

geration about ETEC's influence on the international lumber market, that its effect was mainly confined to the psychological sphere, and that the rise in prices during its first two years was rather the result of the British building boom and of increased world demand for lumber than of ETEC's decisions.

Looking backwards on four years' experience, ETEC's main achievements seem to have been the following:

1. Coming at the right moment it restored the confidence of buyers in the market. By inducing them to make their purchases during the winter months instead of waiting for the opening of the shipping season toward the end of April, it greatly facilitated the financial and technical operations of the shippers.

2. It resulted in a considerable improvement of international timber statistics. ETEC imposed on its members the obligation to submit monthly sales statistics. When the importing countries asked for these confidential figures, they were told that they could get them only in exchange for their own stock statistics. Hence stock recording services were developed in Britain, France, and Holland.

3. Frequent meetings attended by leading exporters set an end to unfounded rumors which previously had resulted in unnecessary friction and unrest.

Offsetting these achievements were a number of shortcomings:

1. Canada and the United States, contributing over one-third of the world's lumber exports, were not members of ETEC, which thus failed to achieve the necessary universality.

2. ETEC made no provision for consumer representation. Some co-operation was established with importers and importing agents, but experience demonstrated clearly that these groups could in no way be regarded as the spokesmen for consumer interests.

3. ETEC's greatest weakness was its inability to control the markets effectively, while it accumulated nevertheless all the opposition and bad reputation of a producers' cartel.

As a matter of fact, none of ETEC's members, except Exportles, was strong enough to prevent the shipment of a single board foot of lumber for which a buyer could be found. Conscious of their weakness, the various participants saw to it that the quotas—far from being restrictive—were actually fixed at the highest level of prospective exports. The agreement also contained safety clauses under the title of "shipping margins" and "overlying goods" which gave every country an excuse for exceeding its quota by 10 to 15 per cent. Finally, there were no sanctions and hence when market conditions in 1937 suddenly turned out to be more favorable than had been anticipated, several members exceeded quotas plus margins and got away with a public scolding and an apology.

ETEC was by volume and value the largest international agreement dealing with forest products. But even prior to ETEC, European producers of pulp and paper had concluded several agreements which regulated not only foreign trade, but also production, prices, and sales. Limits in time and space prevent me from entering into a discussion of these agreements. The gradual cheapening and the rapid expansion of these products seem to indicate, however, that none of the arrangements was particularly restrictive. Yet they too suffered from much the same weaknesses as ETEC.

The war has interrupted international co-operation and trade in forest products and has compelled both belligerent groups to introduce war economic controls for all major materials. With regard to wood and other forest products, the German war economy was far better prepared and organized than its Allied counterpart. Indeed the Nazis were probably the first to see in the forests a renewable and abundant resource capable of providing shelter, transportation, clothing, fuel, and a whole list of materials of which Europe was short. To take full advantage of their "universal raw material" the Germans have attempted to subject all European forests and forest industries to Berlin's absolute control. Since none of the European Forest Trusts and Commissions will survive the German defeat there is no need to devote any further time to them. Nor could much be gained from studying Allied war machinery for forest products.

On the other hand, the war has caused three major developments which are bound to exercise a far-reaching influence on the future world position of forest products.

1. For many years scientists have claimed that wood is an exceptionally versatile raw material, capable of supplying a good deal more than low grade fuel, lumber, and pulp. When the Axis as well as the United Nations were compelled to produce a maximum of everything, they put these theoretical findings to a practical test which was successful beyond all hopes. This war-caused application of modern technology is likely to become an equally important turning point in the history of the world's forests, as was the steam engine for coal, or the automobile for rubber.

2. Warfare has damaged large forest areas. War requirements have resulted in heavy overcutting of most European and North American forests. There is yet no way of knowing how heavy and how lasting has been the damage suffered by the forests in different countries. Some preliminary reports seem to indicate that despite Nazi exploitation and heavy land fighting, the well-managed forests of Europe are still, by and large, in far better shape than the long mismanaged forests of North America. Nevertheless, at war's end the productive capacity of the world's accessible forests will be below that of 1939.

3. Housebuilding and other forms of civilian wood consumption have been interrupted for many years. Air and land warfare have destroyed and damaged an enormous number of buildings all over Europe and East Asia. As soon as the firing ceases, wood requirements will soar to unprecedented levels. Especially the need to house millions of shelterless people will have to be given almost equal priority with food and clothing if some degree of social stability is to be restored to war-torn areas.

In the absence of any statistics, it is impossible to weigh the effects of these three developments against each other. There is no doubt that wood supplies during the reconstruction period will fall very short of requirements. But whether the difference between supplies and effective demand will be large or small, whether reconstruction will last three years or ten, and especially what the supply and demand relation for forest products will be when reconstruction has been completed, remain open questions.

Only one thing is certain. Since the destruction during this war is likely to be far heavier than during the last one, and since the changes in the world's political geography bid fair to affect substantially the distribution of forest resources, a much aggravated repetition of the disturbances experienced in the interwar period can be avoided only if all governments co-operate to that effect and start doing so without delay.

UNRRA has not devoted special attention to forest problems. But in December, 1943, "forestry and primary forest products" were added to the scope of the proposed Food and Agriculture Organization of the United Nations (FAO), and for the past year a special Committee of the Interim Commission has been engaged in working out proposals for FAO's program in this new field. These proposals are still under consideration; they have yet to be examined and adopted by FAO's member governments. The following personal remarks are therefore in no way an expression of FAO's line of thought.

In my opinion FAO should not just try to continue CIB and even less to revive ETEC and the old pulp agreements. What really condemns these prewar ventures is not some technical deficiencies which might be corrected, but, first, their necessarily static determination of consumption requirements; and, second, their basic defect of regarding lumber, pulp, and other products as separate, unrelated commodities.

In steering an entirely new course, FAO should begin by replacing the end products approach with the principle of *integration*. Nobody has ever questioned the logic of considering ore, iron, and steel or the variety of products derived from oil as economic categories. The term "forest products" has so far been used chiefly by economic writers as a

convenient reference and corresponds to no economic reality. However, the need to focus attention on forest products, instead of a series of end products, becomes more evident every day, specially for technical reasons.

Developed separately and without plan, forest industries work with lower yields and more waste than probably any other industry. Yet most logs that are not suited for lumber could make pulp; so can much of the waste from sawmills, veneer and plywood factories, and other mechanical wood industries. What is too bad for pulp together with the 50 per cent waste in pulp making, is still suitable raw material for various chemical processes yielding alcohol, cattle fodder, plastics, and many other products. The integration of all these operations is capable of reducing waste in forest industries from 80 per cent to less than 30 per cent, especially if the combined approach is not confined to the factories but starts with the felling of the tree.

Integration is a technical concept of far-reaching implications. It seems, for instance, that proper efficiency in forest industries cannot be achieved without some balance between the output of lumber, pulp, and other forest products. In Sweden, where integration of forest industries has gone a long way, 1 ton of pulp is produced for every 1,000 board feet of lumber. Present world lumber output attains some 75 billion board feet. But the world's pulp production is only around 25 million tons.

By converting waste into yield, integration increases the physical amount of products, and also the financial returns from every acre of forest land. This in turn renders sound forest management economically more attractive and also improves the economic possibilities for the development of now inaccessible forests, both of which are likely to lead to substantial additions to the world's supply of forest products.

At present only a fraction of the world's forests renders its full service to mankind. Several billion acres of forest land are lying idle, since growth in an unused forest merely balances decay. Inadequate protection and bad practices applied to those forests that are in exploitation, keep their yield far below what it could be. In the United States, for instance, net growth per acre is estimated at 25 cubic feet; but forest growth attains 80 cubic feet in the well-managed forests of Denmark and 140 cubic feet on some of the former cotton fields in the South now planted with yellow pine.

The integration of forest industries, and especially of forest industries and forest management, seems capable of raising the world's supply of forest products to many times what it has been in the past. But will there be markets for all these products? Or will they result in creating new surpluses?

FAO cannot ignore that danger. It is particularly serious, because the postwar building and reconstruction boom, together with the desire of governments to create new industrial employment, will be a strong incentive for the erection of new forest industries. But neither can FAO afford to miss these unique opportunities for the introduction of new methods and concepts. It could not promote even a mildly restrictive commodity agreement. Hence, FAO's answer should be a full-blown world forest policy, based on nature's own limiting factor; i.e., the principle of sustained forest yield under which annual fellings should not exceed annual growth.

The application of this principle to the immediate postwar supply and demand situation will reveal a substantial deficit; the urgency of reconstruction demands will even make it necessary to postpone the application of the sustained yield principle and to continue overcutting for some time while additional supplies are being developed. But already during this period FAO should assist governments in selecting for overcutting those forest regions which can best stand the strain.

The concept of a world forest policy also implies that new forest industries should be developed only after a careful study of the long-range trends in world demand for forest products. In making this study FAO will have to give particular attention to the effects of a progressive and substantial cheapening of forest products. More efficient and higher yielding processing methods are certain to reduce production cost very substantially. Only the richest countries have so far achieved high consumption levels for forest products other than fuelwood. Even in those countries, an expanding economy could open large markets for cheap and abundant new products, adapted to suit consumer requirements. But if forest products became a cheap commodity in China and India, where wood is still a rare and expensive technical material, the potential requirements would be almost unlimited.

In applying its conclusions about prospective demand, FAO should break with the old commodity approach and turn its attention right to the forests. It will then find that even modern, integrated industries will not produce enough goods from the now accessible forests when the principle of sustained yield is finally put into effect. This broad approach will also reveal what industries need to be developed, to create the necessary balance in forest utilization and at what rate additional forests should be taken into exploitation. A world program will result, differentiated to suit conditions in different parts of the world.

It will probably start with measures for the restoration of North America's and Europe's depleted forests, among which the adoption of integrated higher yielding production methods will occupy an important place. To supplement output the gradual development of new forests

and processing facilities in Latin America, Siberia, Africa, Northern Canada, and Alaska might be contemplated. It would open up vast areas for human settlement and industrialization. Practical experience with more efficient methods in forest management and utilization will also facilitate plans for the afforestation of wide tracts of denuded soils in China, the Middle East, and the Mediterranean area.

FAO's world forest program will not be designed to prevent short-term fluctuations, which would probably have to take care of themselves, facilitated by the use of the forests as a cheap and always ready storehouse in times of cyclical depressions.

Nor is it certain whether FAO's policy will make forest products more international commodities than they have been although such a course is not unlikely. Widespread consumption of forest products will tend to stimulate international exchanges and these will be facilitated by the fact that chemically processed forest products are less bulky and less handicapped by transportation cost than raw wood. Less than 1 per cent of the world's firewood enters international trade, only 12 per cent of all the lumber is exported, but 60 per cent of all the wood that goes into pulp and paper serves for exports. These factors might be offset to some degree by the effect of improved processing methods, which will enable many countries to derive from their own forest products which they had to import or forego.

No matter, however, whether international trade will be larger or smaller than before, FAO's world forest program will accentuate substantially the role of forest products in world economy and also win them more adequate recognition. It should always be remembered that FAO's main function will be to advise governments and that it is not likely to take any direct action itself. But if all governments cooperated in applying a forest program as outlined, it would not only put and keep the world's forests in good productive shape, offer immense investment and employment opportunities, and spread all over the globe a modern, big industry producing an almost unlimited variety of goods. It should also result in mobilizing the forests as the world's largest and infinitely renewable source of raw materials, to provide more and better shelter, clothing, sanitation and education for the common man, everywhere.

DISCUSSION

S. v. Ciriacy-Wantrup: Dr. Kotok's important and well-organized paper concludes with a challenge to economists and political scientists to give more attention to the economics of conservation and to the problem of bridging the existing gap between economic theory and practical public policy. There can be no disagreement about these needs. This discussion, therefore, may be directed partly to Dr. Kotok's statement of the economic issues and partly to practical possibilities for international action in the conservation of renewable resources.

The general economic problem of using renewable natural resources is correctly stated by Dr. Kotok. He may have added that the maximization principle, in order to be practically useful for public policy, needs to be restated in discontinuous terms, as a step-by-step approach to the optimum and, frequently, in terms of minimum rather than optimum objectives. He also emphasizes appropriately difficulties created by the existence of extramarket values, of improper allocation of social revenues and cost in private resource utilization, and of "social time preference." Space does not permit an adequate discussion of possible attacks upon these difficulties here.[1] Only a few observations may be permitted:

First, it is perfectly true that depletion of the resource itself (among other kinds of depreciation) is often not sufficiently considered by entrepreneurs in utilizing renewable natural resources. Still, the problem of maintaining capital as a valid general principle of economic accounting is not necessarily identical with the problem of maintenance or building up of our renewable resource assets. The former refers to the temporal aspects of input and output values; the latter to the flow over time of physical resource yield.

Second, it may be questioned whether the existing waste in the use of renewable resources is a consequence of "an unbridled competitive system." Imperfect knowledge, insufficient working capital, uneconomical scale of operations, insecure tenure, obsolete mores, "unscrupulous" entrepreneurship, and other factors are important reasons for public action; but they are not necessarily connected with competition. Dr. Kotok is not the only one who believes that conservation policy on one hand and policies aimed at safeguarding and increasing competition on the other must somehow be in conflict with each other. It is not necessarily true that "the trustbuster and the conservationist are strange bedfellows."[2] This issue is no less important in the international than in the national realm. A number of agreements restricting international competition in resource utilization make some appeal to conservation. For some of these agreements this claim appears justified. For others conservation was never a bona fide objective and the results were conservation (if at all) only for some areas, but uneconomic depletion of resources for the world as a whole. One may agree with Dr. Kotok that an

[1] Attempts in this direction are made in a monograph soon to be published entitled, *Economic Theory and Public Policy of Conservation.*

[2] Erick W. Zimmermann, *World Resources and Industries* (New York: 1933), p. 785.

unprejudiced analysis of international commodity agreements from the standpoint of conservation as in order, and that such agreements may indeed become an important tool of international conservation policy. However, it would be in the interest of international co-operation in resource conservation and in the interest of a more positive public attitude towards commodity agreements (to avoid the term "cartel" lately so often misused as well as abused) as a tool of such co-operation, if uneconomical and antisocial resource use would be more clearly separated from the "wastes" of competition—wastes which are frequently due to absence of and to institutional imperfections of competition.

Shifting now our attention to practical possibilities for international co-operation in the conservation of renewable resources we may point to a rich field of diplomatic precedent and economic experience; namely, the field of marine resources, birds, and upland game. It is no accident that international conservation policies (similar to domestic regulation) started earliest in relation to these "fugitive resources" which must be "captured" for use. In the absence of secure tenure or of regulation of use, economic calculation for resource users becomes similar to the calculation relevant for stock resources with extremely rapid natural deterioration. Deferred use is always subject to uncertainty: others may capture the resource in the meantime. To obtain security of tenure through international agreement has been attempted through interpretation of territorial waters.[3] Much more important are regulations on the basis of international conventions.[4] Without going at this time into a detailed discussion of the origin and achievements of these conventions a number of points may be noted which appear relevant to this discussion.

1. International congresses proved useful in focusing public attention to specific conservation problems and in bringing experts into personal contact.

2. Such congresses were of lasting effect only if they led to formal conventions which were ratified by the signatory powers and executed in good faith.

3. Conventions needed permanent international agencies for effective functioning. The minimum duty of such agencies should be research, establishment of conservation standards (codes), exchange of information and advice, special reports, and preparation for further international action. In some cases such agencies have effectively performed as regulating commissions. Early establishment of such agencies with the minimum duties mentioned appears essential.

[3] A good work on sources for this attempt is: Stefan A. Riesenfeld, *Protection of Coastal Fisheries under International Law* (Washington, D.C.: Carnegie Endowment for International Peace, Division of International Law, Monograph No. 5, 1942).

[4] The most important are (in chronological order): Paris Convention of 1902, concerning the Conservation of Birds useful to Agriculture; Fur Seal Convention of 1911; U. S.-Canadian Convention of 1916, concerning Protection of Migratory birds; Pacific Halibut Convention of 1930; Whaling Conventions of 1931, 1937, 1938, and 1939; London Convention of 1933, concerning conservation of African Flora and Fauna; U. S.-Mexican Convention of 1936, concerning birds and upland game; Pacific Salmon Convention of 1938; Pan American Convention of 1940, concerning conservation of flora, fauna, and scenic resources in the Americas.

4. If conventions and international agencies affect vitally private industries an advisory council composed of industry representatives proved useful in securing voluntary co-operation.

5. A division of functions between official international agencies and agreements between organized private industry appears feasible. The former may set general standards or promulgate broad rules for resource use from the standpoint of conservation. The latter may regulate production and "orderly marketing" from the standpoint of prices and employment within the framework of official regulation. An example of such a situation is the conservation of Pacific Halibut under the Convention of 1930. Similarly, the British-Norwegian Whaling Cartel operated along the lines suggested by the Geneva Whaling Convention of 1931. International supervision of private agreements from standpoints other than conservation would appear the next step to be taken.

6. As yet only conventions and international agencies concerned with specific resources have been successful. It is too early to pass judgment on some recent beginnings of a more comprehensive scope. We refer to the recommendations of the Eighth American Scientific Congress held in Washington, D.C., in 1940: The governments of the American Republics are to appoint an Inter-American Conservation Commission to be charged with the duty "of preparing an inventory of world natural resources and of formulating a general policy and specific program of action to promote the mutual conservation and prudent utilization of natural resources for the welfare of all nations in the interest of permanent peace."[5]

Facilities of the International Institute of Agriculture in Rome have been useful for a few conventions connected with plant and animal protection.[6] The Institute has had a singular opportunity to take the leadership in promoting research and international co-operation in the conservation of renewable resources. It has not done so. The same is true for the International Forestry Center in Berlin, a branch of the Institute, formed shortly before the war. This neglect of the Institute should be considered if its organization is integrated into the new international agencies emerging from this war.

In the proposed Constitution of the Food and Agriculture Organization (FAO) of the United Nations which will be among a number of permanent agencies under the Dumbarton Oaks Economic and Social Council, conservation of natural resources is prominently mentioned among suggested functions.[7] With regard to commodity agreements, it is proposed that problems of operation, regulation, and supervision be left to a separate Trade and Commodity Agreements Organization of the United Nations.[8] Presumably, however, research and reporting functions in connection with agreements relating

[5] See *Proceedings of the 8th American Scientific Congress* (Washington, D.C.: Department of State, 1941), Vol. I, p. 245.

[6] International Convention on Locust Control of 1920; International Convention on Plant Protection of 1929; International Convention for Standardization of the Methods of Keeping and Utilizing Herd Books of 1936.

[7] *First Report to the Governments of the United Nations by the Interim Commission on Food and Agriculture* (Washington, D.C.: Aug. 1, 1944), p. 141.

[8] *Ibid.*, p. 26.

to agricultural products would be left to the FAO and the latter would also have representatives on the Commodity Agreements Organization and its commodity subgroups. It is conceivable that the FAO would also be charged with the promulgation of technical rules with respect to (among other fields of international interest) conservation. Individual commodity agreements should conform to these rules. Such a division of functions between the FAO and the Commodity Agreement Organization appears desirable because agreements in agricultural and nonagricultural products have many features in common, because the actual operation and regulation of agreements will probably be exposed to considerable pressure by interested official and unofficial groups and because personnel best suited for the functions of research, investigation, and advice will probably be different from that entrusted with operation, regulation and supervision.

The FAO would have to co-operate closely with the various international agencies established in connection with the conventions mentioned above. It may also be hoped that a parallel organization concerned with fact finding, information, advice, and policy promoting in the field of nonagricultural (stock) resources will be created. As correctly indicated by Dr. Kotok, renewable (flow) resources and stock resources are interrelated in many ways. The FAO and a Trade (Commodity Agreement) Organization do not appear sufficient for an adequate international treatment of the problems of natural resources.

John Ise: I find nothing to criticize in Professor Williamson's very interesting paper. Space limits are of course too narrow to permit a very full discussion of such a subject as "Prophesies of Scarcity or Exhaustion." Such prophecies have been made intermittently, in the case of timber, since very soon after the settlement of the Colonies; in the case of oil, since the drilling of the Drake well. I should like to mention particularly, however, a very significant book, George P. Marsh's *Man and Nature,* published in 1868, probably the most important of the early books on conservation. In this book, often cited by later prophets and conservationists, about two hundred pages are devoted to the evil results of forest destruction.

I think Professor Williamson has done well to devote much of his attention to the checking of rather late predictions, such as those of the National Conservation Commission, of 1909, even though the outlines of the conservation policy of the government were fairly well established by 1909, and conservation appeals and predictions which appeared from that time on had less effect than those which appeared earlier. The Forest Reserve Act had been passed in 1891, and the national forests had reached approximately their present area by 1907—excepting in the East, where the government is slowly buying up forest lands; some 64,000,000 acres of coal lands had been withdrawn from entry in 1906; many of the national parks had already been reserved; and the land later known as the oil reserves was withdrawn from entry in 1909, although not definitely established as reserves until later. The conservation policy was pretty well set by 1909, although much has been done since.

As Professor Williamson says, some of the many mistakes in prediction brought the prediction business into some disrepute; but I am not sure that I would agree that they "made it difficult to secure more effective public policy." On the contrary, conservation legislation was the result of a general apprehension as to future reserves, which was to some extent due to these repeated predictions of scarcity, inaccurate as they later proved to be. Perhaps if the estimates and predictions had been accurate, less pessimistic, they would have aroused less public interest and would have brought tardier government action. If the "authorities," for instance, had predicted that oil production would increase steadily until 1945, and that there would then be known reserves of some 19 billion barrels, the people would have taken less interest in reserving a part of the supply. The fact that the reservation policy was fairly well established by 1909—before the inaccuracies of some of the predictions had been proved—suggests that much of the legislation may have been due to the very fact that unduly pessimistic prophesies had scared unduly optimistic people into some realization of the fact that most natural resources are not inexhaustible. It should be added, of course, that the estimates and predictions were not the only factors responsible for the conservation policy. Quite as important, probably, was the persistent and generally effective work of conservation leaders, particularly Gifford Pinchot and President Roosevelt, who did not rely altogether on particular estimates and predictions.

Professor Williamson has performed a very useful service in checking some of the early prophesies and in showing how precarious the prophet's business is; yet I hope he would agree that the moral of the story is not that we should stop estimating and predicting just because we cannot be more accurate. We *must* look ahead, we *must* base our national policies on some theory as to future reserves, and we have not generally weighted future interests too heavily, or indeed heavily enough. The time of scarcity, if not as immediate as some of the prophets have believed, is coming, too soon. If the prophets of abundance are correct, for a few years or a few decades, the prophets of scarcity, at any rate with regard to some of our resources, will surely be correct for the ensuing thousand years. However long such resources as timber, oil, gas, lead, copper, zinc, and iron ore last, they will be gone too soon.

EUGENE STALEY: The paper on "Forest Products in a World Economy," by Egon Glesinger, is very interesting and suggestive. I see no reason to quarrel with its major conclusions.

The thoughts he puts forward as an outline of forest-product policies for the projected Food and Agriculture Organization certainly look in the right direction. Let us hope that governments will not be too timid about letting the FAO have real influence. One of the great virtues of the FAO approach, whether it concerns forest products or food crops and nutrition, is to place emphasis on better meeting of consumption needs rather than on restriction of output. The first thought of pressure groups that want to "do something" for particular commodities or groups of commodities has usually been to make them scarcer in order to raise the price per unit. A much more constructive attack—and ultimately much more workable, since the restrictive method

tends to be generalized to the detriment of everybody—is balanced expansion in a world economy where general development programs and other measures keep demand at a high level. Such an approach permits commodity policy to be concerned with reduction of waste, development of new uses, and tapping of new markets.

Mr. Glesinger's paper illustrates a number of points which apply to many other primary products as well as to those from forests. First, the fate of raw-material producers depends on the general level of economic activity. Nothing that can be done about forest products as such is likely to keep the producers prosperous in the midst of general depression. A single-commodity or commodity-group approach to problems of economic stability holds little hope. The lesson that has to be learned in commodity policy as in international affairs is that there is no security except through "collective security."

Second, under the intolerable conditions created by a general collapse of demand, the urge to try restrictive devices (which is by no means absent in prosperity) becomes almost irresistible. Some of the softwood producers in Europe appear to have agreed to export limitations very reluctantly, under the pressure of depression conditions, but the restrictive arrangements broke down as general demand revived.

Third, the immediate outlook after the war is for a period of scarcity and high demand, in forest products as in many other raw commodities. There is grave danger that prices will be permitted to rise drastically, partly as a result of the understandable but unwise disposition in business quarters to be rid of government controls immediately when hostilities are over. This would lead consumers and middlemen to build up their inventories, in effect hoarding scarce materials that would be badly needed for reconstruction and intensifying the scarcity. The sharp rise of raw material prices would encourage over-expansion of producing facilities. Later there would be a disastrous collapse of raw material prices, general unloading of inventories, and panicky demands for restrictive controls. This was the experience after the first World War in quite a number of important commodities. Economists ought to do all they can to warn their fellow citizens of this danger in order that it may be averted by continuation of the necessary price and rationing controls for a reasonable time after the war and by extending the wartime system of international allocation (with appropriate modifications) into the transition period.

Mr. Williamson in his paper on "Prophecies of Scarcity or Exhaustion" opens up an extremely interesting topic, and I hope that he or someone else will subject it to more analytical and more detailed treatment. In his book, *From Economic Theory to Policy* (1944), E. Ronald Walker discusses at some length the problem of predicting changes in the conditions of economic activity—those exogenous "given" data which are taken as assumptions in theoretical discourse but which the economist called upon for practical advice has to analyze. Various methods of prediction are distinguished—extrapolation of past trends, extrapolation of past trends corrected in various ways—and the methods are illustrated in such fields as population growth and technological improvement. Could not an analytical examination along these lines be made of the instances of predicting resource exhaustion adduced by Mr.

Williamson, and of other similar cases? Mr. Williamson's paper makes it plain that past methods have not avoided certain major pitfalls. A more precise study of just why and how might help future prognosticators to improve their methods.

Mr. Williamson alludes only briefly to the predictions of petroleum exhaustion which had a considerable influence on some of the international actions of the United States at the end of the first World War. According to those warnings, the domestic petroleum resources of the United States were to have been exhausted before now. Yet at the date set for exhaustion there was about as much oil in sight as at the time the predictions were made—a result of deeper drilling and new fields. Now we hear again that domestic petroleum resources face exhaustion in a matter of decades. Remembering the story of the boy who cried, "Wolf, wolf!" we want to avoid both overexcitement and overskepticism. If Mr. Williamson or someone else can give practical guidance on how to evaluate the current petroleum predictions, I for one will be most grateful.

INTERDEPARTMENTAL COURSES IN THE SOCIAL SCIENCES

THE CONTEMPORARY CIVILIZATION COURSE AT COLUMBIA COLLEGE

By Louis M. Hacker
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I. *The Course's Basic Assumptions*

The course in Contemporary Civilization at Columbia College is in its twenty-sixth year and has been completely revised at least half a dozen times. Recently, another such re-examination occurred; and the result is taking the form of a rewriting of texts and a fresh selection of source readings. Here exactly is to be found the secret of the course's vitality: it has never deviated from its original principles; at the same time its work materials are constantly being tested in terms of classroom experiences and needs and a changing world which these are assumed to reflect.

The origins of the course will help to throw some light on the basic assumptions underlying it. In the midst of World War I, during 1917 and 1918, a course was established at Columbia which bore the title, "War Aims." With the end of the war, the study of "War Aims" was moved into the historical seminars and the general course in that subject was discontinued. But the members of the Faculty who had sponsored the "War Aims" course began to wonder if there were not some more stable basis on which to organize the study of the contemporary world in terms of its tradition and operational characteristics. They decided that an appropriate part of the curriculum of Columbia College might well be a course on "Peace Aims." The Faculty agreed; and in 1919 a course was set up bearing the title, "An Introduction to Contemporary Civilization in the West." This was to be required of all freshmen; was to meet five times a week; and was to represent a pooling of the efforts—in subject content and staffing—of the Departments of Economics, Government, History, and Philosophy.

In 1929, the course was expanded to a two-year program required of both freshmen and sophomores. Because, in 1937, a general Humanities course was also introduced, the time allotment for the Contemporary Civilization course was reduced somewhat. At the present writing, the freshman classes meet four times a week and the sophomore classes three times. The four departments continue to function as a unit for the purposes of administering the two-year course; this has also made possible the elimination of the traditional introductory courses in these four fields.

The liberal arts program, as well as the courses of study leading to professional training, should seek—among other things—to train our youth for participation in social living. We function in a changing world; but there are certain values, the results of the experiences of Western civilization, which constitute our heritage. In a very real sense, these values are fixed and a proper understanding of them forms the whole man. They help in the educational task of self-discipline and they make the individual a conscious member of a social process where order and continuity are the keys to organization and a free-associational life. In a free society, therefore, the student must be presented every opportunity of becoming familiar with, indeed becoming a functioning part of, the social, economic, political, and intellectual aspects of the civilization in which he is to live and to lead. Values are to be acquired; and choices are to be made.

Given the necessity of making intelligent choices—between a voluntaristic and a dialectical interpretation of history, between authority and free association, between status and contrast, between rule by decree and the rule of law, for example—it follows, educationally, that the student is entitled to a broad survey or orientation course which will make him familiar with the experiences and achievements—in fact, the progress of—the Western civilization of which he is a part.

The method of such an orientation course in the social sciences is clearly historical. Professor John Herman Randall, Jr., who has been associated with the Columbia Contemporary Civilization course almost from its beginnings, in a passage in a recent article describes well the utility of the historical method. He is commenting on a text from Santayana:

> History when liberally conceived . . . has the function either of politics or of poetry. It is political in bringing the past to a focus upon our problems, in illuminating the choices which it is ours to make, in making clear why we must face them, and in helping us to understand the materials with which we must work. History best performs its function as politics when it is functioning as poetry, as a revelation of man—of what human nature has been and has become, of what Santayana has most fittingly called the sweetness and glory of being a rational animal.
>
> For man and his life is fundamentally historical in character: human nature is an historical nature, temporal and cumulative. Its history is of its very essence. We cannot understand man today—as free minds must—without understanding the fact that man has had a history, and that he is still making his own history.

II. *The First Year*

Our intention, at Columbia, thus is a dual one: to reveal the nature of the past (both what has been rejected and what has been retained in our civilization's experiences) and to expose the insistent contemporary problems of the present which our tradition—the living past—can help us understand. The examination of our Western heritage, in its intellectual and institutional aspects, in other words, gives us—we believe—

a set of tools with which we can analyze with all the intelligence at our command the shape and form of the unfinished businesses, or problems, that confront our present world.

Obviously, a selective process must take place if this educational intention is to be fulfilled. The Contemporary Civilization course starts with the breakup of the Middle Ages and begins with an analysis along three lines of inquiry which are pursued throughout. How have people made a living? How have they lived together? How have they understood the world and their relations to it? And in this examination, the student meets at once two important, perhaps the most important, aspects of what has been referred to as the Western tradition: the Judaic-Christian quests for justice and love and Greco-Roman quests for natural law and order. Other seminal forces entered our tradition at later dates and these are closely scrutinized and evaluated when encountered historically. They may be enumerated here and the content of the whole course in the first year thus revealed: the growing dignity of the individual under the influence of the Renaissance and the Reformation; the revival of Experimental Science with its great effects on the manipulation of man's natural environment; the Enlightenment and its search for natural law in social relations; the births of Democracy, Liberal Capitalism, and the ideal of Internationalism. Through such a study of our past, values emerge: that we live in a free society in which the spirits of justice, love, and scientific inquiry have been the touchstones to social invention; that in such a society the individual has labored to achieve freedom from an unreasoning authority (whether ecclesiastical or political); and that in a climate of experimental science, technology, and liberal-capitalist institutions, man consciously shapes his world to achieve welfare for himself and for constantly growing numbers of the human race.

These enumerated bench marks of our progress are only broadly designated here; the fact is, in the classroom they are examined and tested in a great variety of ways. Take the case of the reception of Aristotle and Cicero by the Middle Ages of the twelfth and thirteenth centuries. The student reads from Aristotle and Cicero to see what meaning these had to the classical worlds. He then reads from Thomas Aquinas to comprehend what the concepts of science and natural law meant to the medieval world. Or take the case of Liberal Capitalism. The student reads, among others, from Smith, Malthus, Ricardo, Bentham, Tocqueville, and Bright. At the same time he is made to realize that the intention and institutions of Liberal Capitalism were undergoing a constant barrage of criticism at the hands of contemporaries. So he reads Catholic critics (Mun, Leo XIII, Pius XI); anti-libertarian critics (Carlyle, Comte); nationalist critics (List); utopian,

communist, syndicalist critics (Owen, Proudhon, Marx, Sorel, Lenin); and humanitarian critics (Kingsley, Dewey).

This, broadly conceived, is the programmatic design of the first year. To summarize: the subject matter is the development of Western European ideas and institutions from about the eleventh century to the present; the treatment is historical—in a broad genetic sense. The course is concerned with showing the changing attitudes of Western civilization toward revealed religion and the search for salvation, the concept of the state, the idea of natural law, the use of the scientific method, the creation of free associations, and the like. All, however, within an historical frame of reference; for the Middle Ages, the Mercantilist Epoch, and our own Modern Times have offered various explanations and cultivated different attitudes toward human strivings and social institutions. Each epoch, as it were, has its own time spirit. Nevertheless, out of the experiences of all of them a set of values emerges which may properly be regarded as our heritage from the yearnings, the pains, and the achievements of the past. There have been transmitted to us both means and ends; and these the student is taught to keep ever in sight as he examines the problems of our own day. Thus the way is prepared for the work of the second year.

Before turning to this, however, a description of the techniques of instruction is in order. The whole freshman class of some 600 students is divided into sections of from 25 to 30 men each and taught therefore in a minimum of 20 classes—and by almost as many men. That is to say, only rarely does an instructor have more than one Contemporary Civilization section—and he usually follows it through for the whole year. The instructors are drawn from the four participating Departments—Economics, Government, History, and Philosophy—so that, in fact, each man teaches the course in terms of his own interests, training, and predilections. This is consciously encouraged; the instructor can speak with authority as a specialist at the same time that he finds it imperative to operate with intelligence in all the social sciences. The course is staffed from the College Faculty and from the Dean's Office; from time to time, however, members from the Graduate Faculties are brought in so that fresh evaluations of content and method may be acquired.

Textbooks are being abandoned increasingly as the course evolves. Originally, its main reliance was upon three texts: one in cultural and political history, one in economic history, and one in intellectual history. Since 1941, the living substance of the course has consisted of source readings, put together by the staff; and a group of specialized articles, also written by the staff. The framework and continuity still

continue to be provided by the texts. But whenever we find a member of the staff capable of writing an illuminating and original article, he is designated to do so. Thus, to date, among others, we already possess such original articles on Aristotle and St. Thomas, Mercantilism, the Scientific Revolution, the Puritan Revolution, the Enlightenment, the Labor Movements of the Nineteenth Century, a Cyclical Analysis of the English Industrial Revolution, and the like. Within the present year, under the stimulus of a new committee on revision, large additions to the original articles will be made. In time, therefore, it will be possible to eliminate the textbooks entirely. The student is also furnished with a manual which contains introductory notes, assignments, questions on the source readings, and additional bibliographical references.

The source readings consist of two kinds: whole documents of outstanding historical significance and fairly long to long selections from books and public papers that have had a great influence on Western ideas and institutions. In the latter connection, the selections are large enough (from 10 to 100 octavo pages) to permit the student to get a clear understanding of the writer's style, his method of analysis, and the general trend of his argument. To take some examples. The student reads, among others, the whole of the *Magna Carta,* the *Covenant of the League of Nations,* the *Communist Manifesto,* and Pius XI's *Quadragesimo Anno.* He reads long selections, among others, from Aristotle's *Politics,* St. Thomas Aquinas, Dante's *De Monarchia,* Hobbes *Leviathan,* Rousseau's *Social Contract,* Smith's *Wealth of Nations,* List's *National System,* J. S. Mill's *On Liberty.* He reads more briefly, among others, from Machiavelli, Sir Thomas More, Daniel Defoe, John Law, Thomas Mun, David Hume, Thomas Malthus, David Ricardo.

A few specific lessons may be cited. The topic called "The Introduction of Modern Science," is opened to the students by assignments in J. H. Randall's *Making of the Modern Mind* and the reading of an original article by Professor Ernest Nagel. At the same time the student reads from the following source materials: Galileo, Descartes, Newton, Fontenelle, and Francis Bacon. The topic called "Constitutionalism," in addition to a text assignment and an original article by this writer, also calls for readings from the Clarke Papers, Harrington, Locke, Montesquieu, and Madison. On the topics called "Economic Liberalism" and "The Political Economy of Industrial Capitalism," in addition to text assignments, the students read from Mandeville, Quesnay, Hume, Smith, Franklin, Malthus, Ricardo, Saint-Simon, List, and a document "The Petition of the Merchants of London (1820)."

III. *The Second Year*

The second year of the Columbia Contemporary Civilization course has also been undergoing a constant evolution. But its intention has always been to "raise for consideration the insistent problems of the present," viewed genetically and operationally. The particular problems to be studied, each with its own special qualities and antecedents, as has been said, require an appropriate historical background. This has been done, in the broad sense, for the whole of Western civilization, in the first year. To amplify this background in ways appropriate to the study of "the insistent problems of the present" in the United States, the course's current intention for the second year is the inclusion of an account—a kind of a bridge of historical analysis—of the growth of ideas, attitudes, and institutions that are significant now in this country.

In working toward this objective, four general problems have been posed: 1. What have been and are the uses and further development of our productive plant in order to achieve welfare? 2. How have we set about the business of governing ourselves? 3. What has been and should be the place of the United States in the rest of the world? 4. What would we, as free individuals and a free people, like to have, to do, and to be? And the general methodological tools employed in the analysis are again four: 1. Cultural anthropology, with special reference to the pattern of institutional formation and change in the United States. 2. Economics, with the emphasis largely on the use of our productive resources and of the things these resources create. 3. Political science, with the core of study the organization and functions of government, the relations of the governors to the governed, and the relations of governments to each other. 4. History, largely concerned with the study of American social institutions and the order of events affecting our relations with other peoples. In actual operation, the tools of cultural anthropology and history are combined. At appropriate places in the plan of study, it should be said, all the methodological tools will be described in theoretical terms.

The materials are presented in this order. The cultural anthropology and history are taken first and combined for the purpose of examining some aspects of the history of the United States in order to ascertain what are the unique and continuing elements in the American tradition; and what have been some of the insistent problems of the past and how these were viewed and handled by the Americans of their times. Therefore, a course in American history along traditional lines is not intended. Instead, some eight or nine historical periods have been set up and each is examined in the following terms, using in every case contemporary documents, texts, and expositions: 1. What was the nature

of the physical and social scene of the period? 2. What were its philosophical values? 3. What were its problems and how were they resolved?

To take an example, that of the decades of the eighteen eighties and eighteen nineties. On the first topic, "The American Scene," in addition to an original essay, the students will read from James Bryce, Matthew Arnold, Carroll Wright, F. J. Turner, and Ignatius Donnelly. On the second topic, "American Values," the students will read from William James, Henry George, Brooks Adams, Andrew Carnegie, and W. G. Sumner. On the third topic, "American Issues," they will study, through contemporary documents and writings, the growth of American business, the appearance of organized labor, standards of living, agriculture's difficulties, the currency debate, the new immigration, the depression, and overseas ambitions and expansion.

This historical survey of American ideas and institutions, presented as problems, it is expected, will take up about one-third of the second year. The balance of the year will be focused upon the more immediate present with the materials largely economic and political in their nature. Perhaps it would be better to call them political-economic, for the relations between enterprise and government and the devising of public policy are ever kept in mind. The materials of this part of the course are economic and political; but the methods of treating these materials do not correspond to those ordinarily used in introductory courses in economics and government. At no point, to any significant extent to really matter, is there developed a theory of value or a theory of the state, for example. The method actually employed is that of analytical description of going institutional affairs in terms which seem to present the most fruitful and provocative set of relationships among the various institutions under examination.

The first major topic in this part of the study is the American productive plant as a going concern. Not only is it our intention to trace the growth of American industry from its small-scale handicraft beginnings to its present large-scale highly capitalistic and mechanized forms; equally important considerations are the relations of these facts to a conception of potential optimum use of resources, to the distribution of the national product, and to an appraisal of prevailing and realizable standards of living. There follow two subheads: (1) our system of private capitalism; and (2) our system of money and credit.

Under the first subsection, the intention of the course may be summarized in this fashion: to analyze how all "roundabout" production, in any kind of economic system, is dependent on the creation of capital; to present the accounting terms of private capitalism; to study the early and current sources for capital creation in the United States; and

to evaluate the processes and the results of our system of industry and capital resources in their growing up together. Under the second subsection, our intention may be summarized in this fashion: to study the expansion of the money economy and the pervasiveness of credit in the United States; to point up the central role of commercial banking as the significant source of credit and as the means of allocating credit; to examine functions and processes of savings and investment, and the relations of industrial activity to the operations of our system of money and credit.

The second major topic in this area of analysis has to do with the nature of the problems and the techniques currently in being or in process (together with the various choices being presented) revolving about our control of our productive plant. Here, the more detailed discussions have to do with: (1) free markets and competition as a system of control; (2) business as a system of control; (3) free associational activity (through trade associations, trade unions, farmers' groups, consumers' groups) as controls in themselves and as reactions to business controls.

The third major topic centers in a study of the evolving problems of living together democratically, or, an analysis of political controls and who controls them. The subsections must be sketched in only broadly. Outstanding problems examined, and institutional devices for their ordering, have to do with: the changing power patterns and intergovernmental relations; the development of democratic regulation; the democratic control of administrative agencies; the politics of democracy—the functioning of party government and pressure groups; the law and the courts.

The fourth major topic links the economic and political disciplines. It is concerned with an analysis of international economic and political relationships. Among the subheads treated are the following: the flow of goods, services, and capital across national borders; public and private policies from national and international viewpoints (tariffs, cartels, colonies, imperialism, neo-Mercantilism); controls through international action in the economic and political spheres; international diplomacy between two wars; the British Empire and the rest of the world; Russia and the rest of the world; the United States and the rest of the world.

Topic five—the concluding one—ends the second year of study. As currently devised, it is expected at this point to draw together the various parts of the course's program and to consider the problem of values, once more, but in these specific terms: 1. How to use and expand our productive plant with a view to some optimum of material well-being? 2. How to govern ourselves according to the "American

Way" and also in consistency with the needs of the present? 3. How to fashion our country's relations to the rest of the world with a view to achieving and keeping peace, security, and the maintenance of our national integrity?

Over the past ten years the basic work materials of the second-year part of the course have been two texts prepared at Columbia College. The first was known as *Contemporary Problems in the United States;* and the second, which is still being used, has the title, *Main Currents in Modern Economic Life*. Both were edited and written by Professor Horace Taylor in collaboration with other members of the teaching staff. Current plans call for an expansion of the work materials along the lines being followed in the first year: a greater reliance on sources and documents and also on original essays. In fact, the preparation of the historical-analysis section is now rapidly being pushed so that, before long, the whole topic will be covered by a source book and a volume of original essays. A similar program of staff work is being devised in connection with the other topics. Pending its completion, our own text is being supplemented by readings in other published works (plus, of course, source readings).

Some of these other texts and discussions being used include the following. On economic problems: The National Resources Committee's *The Structure of the American Economy;* the TNEC Hearings, Pt. I, *Economic Prologue;* Warren's *The Search for Financial Security;* Feis's *The Sinews of Peace;* Edwards' *Economic and Political Aspects of International Cartels;* Newcomer's *Taxation and Fiscal Policy;* The Committee for Economic Development's *A Postwar Federal Tax Plan for High Employment*. On political problems: Beard's *The Republic;* Herring's *The Presidential Leadership;* Schattschneider's *Pressure Groups and Party Government;* TNEC Monograph No. 26, *Economic Power and Political Pressures;* Benson's *The New Centralization;* Pennock's *Administration and the Rule of Law*. On international and postwar problems: Lippman's *U. S. Foreign Policy;* Welles' *The Time for Decision;* Colegrove's *The U. S. Senate and World Peace;* Jennings' *The British Constitution;* Bienstock and others' *Management in Russian Industry and Agriculture;* Shotwell's *What Germany Forgot;* Harris' *Postwar Economic Problems;* U. S. Bureau of Foreign and Domestic Commerce's *Markets After the War*.

IV. *The Course in the Columbia College Program*

It may be of interest to relate the Contemporary Civilization course to the general educational objectives of the Columbia College curriculum. In introducing this survey course—and the same is true of the survey courses in the Humanities and in the Sciences—Columbia Col-

lege assumes that it is not its business to turn out specialists in a narrow field. We are interested in liberalization rather than specialization; and in so considering our function, it is not only important that we guide students into particular channels but, perhaps even more significant, is the necessity for helping them see life broadly. In other words, we believe that every student who graduates from college should have a working understanding of the institutions which make up our economic, political, and intellectual habits and attitudes. We also believe that a course of the kind we have developed offers, so far as formal course study is concerned, a more effective means of achieving this purpose than is possible through the conventional introductory offerings in economics, government, history, and philosophy. For it is quite impossible for students not intending to specialize in the social sciences to take a sufficient variety of detailed courses to gain the knowledge of institutional affairs afforded by such a course as Contemporary Civilization.

There is a second educational purpose we have in mind. The Contemporary Civilization course acts as an admirable introduction to advanced study for those who mean to go ahead as majors in one or another of the social science fields. At many points, the boundaries of these fields merge into one another. Frequently, a proper understanding of theoretical developments in one discipline is impossible without a full awareness of what was occurring simultaneously in one or more of the others. Take the case of Mercantilism. It was a theory of statecraft; it was a theory of foreign trade and money; it was a theory of colonial management; it was a theory of public regulation in the areas of production and labor relations. Within this climate the histories of Great Britain, France, Spain, the British-American Colonies of North America developed during the sixteenth to eighteenth centuries. The advanced student in economics or government or history can see the problem of Mercantilism in its whole setting and in its separate interrelationships as a result of the method pursued in the general introductory course.

These tangible benefits have emerged. Young men are exposed early to ideas and to their manipulation. There is no educational loss if they encounter the same ideas at higher levels in their college careers; indeed, this pattern is consciously followed. If they go ahead in comparative literature they will read Aristotle and Rousseau again. If they go ahead in economics, they will meet Smith and Mill again. If they go ahead in government, the same will be true of Locke, Montesquieu, and Bentham. They are exposed early to the reading of serious books. The result is, for example, that in a reading course in European economic history, given to upper college men, the instructor can ask his students in a single semester to read 3,500 pages in Pirenne, Sombart, Weber, Lipson, Heckscher, Hamilton, Nef, and Mantoux. To this ex-

tent, both in content and in habits of work, the Contemporary Civilization course is the foundation upon which much of the specialized curriculum in the social sciences is built.

We are not unaware of difficulties and inadequacies. We subject the course constantly to criticism from among ourselves, our students, and from members of the Faculty outside of the immediate program. Those who give the course meet weekly to discuss common problems. Once each year, the students, through chosen delegates who frequently are instructed by their classmates, meet with the instructors to pass judgment on the course's successes and failures. Constant experimentation and periodical revisions are the result. We are likely to swing violently from extreme to extreme: to overload and sometimes to underload. Sooner or later, however, the course comes to rest, based on the tested capacity of the students to carry a large burden of outside readings and their curiosity and excitement about a significant intellectual adventure. We have sought to make the world in which they live meaningful for them. We have tried to impress upon them the fact that the faith and the intelligence of men are their most powerful weapons. This kind of training is necessary, it seems to us, to prepare youth for its participation in a free society where problems—unfinished businesses—are always on the agenda.

DISCUSSION

Morris A. Copeland: It is noted at the outset that the present discussant was chosen on the basis of two qualifications: interest in and ignorance of the subject of present-day general survey courses in the social sciences. In consequence the only factual basis for the following comments is Professor Hacker's statement of the survey course at Columbia.

That statement will be welcomed and read with interest by all of those who share the present discussant's two qualifications. It will surely be welcomed also by a much larger number who, though deeply interested in general social science courses, are disqualified from the present type of jury service by virtue of their knowledge of the subject.

Contemporary Civilization is a clear recognition of the fact that society is an organic whole, and that to understand it one needs to deal with it as such. Professor Hacker's description of this course makes clear the advantages of dealing simultaneously with the various aspects of society; namely, that in this way one can get a more nearly adequate and a better balanced perspective than is possible through a course or courses confined to a single discipline such as economics. One gathers also that Contemporary Civilization has the incidental advantage of avoiding some needless duplication of academic effort.

If it were necessary, in order to treat society as an organic whole, to combine all the social disciplines, Contemporary Civilization apparently could not qualify. At any rate no mention is made of sociology. It would have been instructive, if we had had from Professor Hacker an evaluation of the effects of this omission.

It is clear from Professor Hacker's account that the advantages of a general social science course apply not only to the process of gaining an understanding of contemporary civilization but also to the gaining of an understanding of the history of social ideas. The present division of labor in the social sciences and the corresponding mental compartments are of relatively recent origin. It is difficult within the limits of any one of these mental compartments adequately to understand many of the social thinkers of the past. Professor Hacker's illustration of the Mercantilists is an instructive one.

It seems clear that a student who gets his introduction to economics through such a course as Contemporary Civilization enjoys a distinct advantage in broadened perspective. One suspects that those who have had the privilege of teaching such a course have also profited greatly in broadened perspective and have been led to consider and to understand problems regarding society which would inevitably escape a specialist in any one of the social disciplines.

It is unfortunate that Professor Hacker does not tell us why a two-year introductory course—seven academic-year hours—has been deemed necessary. To many it would seem that a somewhat shorter introduction would suffice. Alternatively, a good case can be made for a second general course in social science dealing with "the insistent problems of the present" but at a later stage of intellectual development, say the senior year. After the student has encountered various more specialized courses in the social sciences, there is

need to draw the results together. Doubtless such a course would be more difficult to teach, but it does not appear that the staff at Columbia have lacked the necessary intellectual courage.

Professor Hacker tells us "at no point to any significant extent . . . is there developed a theory of value or a theory of the state." The course in Contemporary Civilization is evidently realistic and factual but theories of value and of the state do not appear to have been slighted because those responsible for the course abhor generalization. On the contrary, they appear to be actively interested in generalizing. Though concerned with "insistent problems" Contemporary Civilization is not "a problems course," properly speaking. One suspects that the received theories of value and of the state have been deliberately slighted because they are not felt to be among the essentials to "a working understanding of the institutions which make up our economic, political, and intellectual habits and attitudes." One could wish that Professor Hacker had given us a clearer statement of those generalizations which are felt to be among the essentials to such an understanding. One somewhat ambiguous generalization that he cites is that " 'round-about' production, in any kind of economic system, is dependent on the creation of capital."

Divergent theories of liberal collegiate education may lead educators to advocate a general-survey introductory course in social science. But differences in theory are likely to involve differences in the type of social science course advocated.

One theory of liberal education is suggestive of the biogenetic law: ontogeny recapitulates phylogeny. According to this theory the student should be taken, via the classroom, through the various stages through which our present society has developed. Education thus gives the student what under more primitive conditions only age and experience could give: the worldly wisdom requisite to leadership. A course conforming to this purpose is likely to deal with the shorter periods of the historian rather than the longer periods of the anthropologist, and to emphasize the history of science, philosophy, and ideas rather than the process of cultural and institutional change. Such a course is not likely to draw too sharp a distinction between the proposition, "Past condition X has evolved to present condition Y," and the proposition, "Valued in present-day standards, past condition X has *progressed* to present condition Y."

Another theory of liberal education which leads to advocacy of a general-survey introductory course in social science is that such a course will cure the student of cultural or institutional provincialism. According to this theory the general introductory social science course should lead the student to question many propositions about our present society that he would otherwise take for granted, and should give him an appreciation of which aspects of our present culture are relatively enduring, which relatively ephemeral. Such a course should also give the student a democratic tolerance for values inculcated by cultures other than our own.

In spite of the fact that, according to Professor Hacker, Contemporary Civilization employs cultural anthropology as a tool, it seems clear that this course conforms far more closely to the former than to the latter theory of liberal education.

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PRICE CONTROL AND RATIONING IN THE WAR-PEACE TRANSITION

INTRODUCTION

By DONALD H. WALLACE
Office of Price Administration

In the past four and one-half years ceiling price control has been used as a major instrument to prevent serious inflation in the face of the ever mounting expenditures of the defense and war programs. For three years rationing programs have been in operation to assure equitable sharing of consumer goods in severe shortage and to aid effective price stabilization.

What should be the role of price control and rationing in the period of transition from the peak of the war effort to a sound peacetime economy of full employment and full production? And what political and administrative problems will face the Congress and the executive agencies in designing appropriate policies for the transition period? These are the questions to which the following group of papers is addressed.

The planned joint meetings of the American Economic Association, the Political Science Association, and the Society of Public Administration presented an opportunity to bring to bear on these important questions the views of economists, political scientists, and experts in public administration. The authors of this group of papers have been drawn from these three fields. All of them have been close students of price control or rationing. Each has had an inside view, as an administrative official of OPA, a consultant, or a close observer from another agency, as well as an outside view. With exception of Mr. Mansfield, none is now an OPA official.

As a result all of the papers exhibit a clear realization of the significance of the various aspects of the problem—economic, political, organizational, and administrative—and all of them evidence a sure grasp of the concrete, operating aspects of the problems, without the preoccupation therewith which the operating official often finds it difficult to shake off.

Professor Clark gives a broad setting for the problems and a compact sketch of the objectives and general policies. Professor Wilcox contrasts the problems and policies of price control in the period of peak war effort and in the postwar transition period. He describes the questions encountered by OPA and the concrete, administrative standards developed to effectuate the statutory standards of the stabilization laws; and discusses the objectives and appropriate standards for price

control in that part of the transition period when unused resources appear in substantial amounts. Professor Fainsod gives special attention to the problems of the earlier part of the transition period with an appraisal of the political factors and the heightened difficulties on the administrative side.

Professor O'Leary emphasizes the importance of rationing and allocation controls for effective price stabilization, which is too often overlooked. Mr. Staats also discusses the interdependence of controls and emphasizes the necessity of proper integration of the transition policies and programs of the several agencies which affect stabilization. Mr. Mansfield points up the difficulties encountered by the price agency in maintaining an adequate staff, discusses the problem of distinguishing *prospectively*, rather than in retrospect, the several stages of the transition period outlined by Professor Clark, and notes some of the special characteristics of pricing the goods which have been out of the market for a few years.

This group of papers will repay study by agency officials, members of Congress, business, labor, farmer, and consumer representatives, and all who are interested in crucial problems presented by the transition from a war economy to a high-level, peacetime economy.

GENERAL ASPECTS OF PRICE CONTROL AND RATIONING IN THE TRANSITION PERIOD

By J. M. Clark
Columbia University

I. *The Setting*

I have been asked to speak about objectives and principles, leaving the more specific questions to the other speakers. The formulation of justifiable objectives would seem to involve principles. Aside from this, I shall not try to confine myself to principles of general application, because we are dealing with an historical situation, the unique features of which seem likely to control the form in which the problems of reconversion will present themselves, and to dictate some of the answers. I shall first discuss briefly the stages of transition which furnish the setting of policies of control and decontrol. Then I shall take up price control, wage control, and rationing, discussing in each case the objectives of policy and some of the more general questions as to what can or cannot be done to promote these objectives.

You are familiar with the scheme of periods into which the coming transition naturally falls. There is the period of full war effort, presumably up to the defeat of Germany; then a probable period of reduced economic effort, on the assumption that war with Japan continues after the German defeat; then some months of immediate postwar reconversion, followed by a few years dominated by the making-good of backlogs of deferred demands for durable goods; and finally, a resumption of economic life without the special and temporary stimulus afforded by the backlogs.

The period of full war effort is one of stringent general shortage of manpower, shortages of most commodities modified by easy supply of a number of materials, and general inflationary pressures. There was some expectation that war production would taper off substantially this winter, as we finished the expansion of our war matériel and went on a replacement basis. Now it looks as if this were based on an underestimate of our enemies, and lack of imagination as to the extent to which their fighting power would increase our needs of replacements, and of new and better types of equipment. The principle of lavishing machines to economize the lives of our men requires equipment that is superior in quantity, and which at least keeps pace in quality with the improvements which our enemy is continually making. This is likely to offset the effect of the principle that replacement requires less output than expansion, and to call for ever fresh production efforts. In fact, if our war production slackens, there is reason to ask whether we are not

neglecting something that might make victory speedier, and cheaper in terms of American lives.

There has been some reconversion during the European fighting, and there will presumably be some more, though the "spot reconversion plan" has been halted; but manpower requirements will limit it to essential products in relatively small amounts. The effects on price control will include the possible demobilizing of some or all of the systems of premium prices employed to stimulate extra output of some scarce metals, and there will be adjustments on account of increased costs. But there is no prospect of transforming the price control system into an instrument for stimulating a great and widespread reconversion while the major struggle with Germany continues.

The period following victory in Europe (V-E day) is more puzzling; on the generally accepted assumption that war with Japan will continue. Estimates of the shrinkage in war production which were announced last November ranged from 15 per cent to 45 per cent. This discrepancy seems capable of making a difference in kind, not merely of degree, in the programs of control. The Byrnes report of September 7, with its proposals for sweeping abandonment of controls of manpower and production after V-E day, was premised on a shrinkage of 40 per cent; and even so it appeared more sweeping than the situation would have fully warranted. The War Production Board is under almost inconceivable pressures toward wishful thinking in this matter, since the alternative to sweeping over-all releases is a network of interdependent perplexities calculated to threaten the sanity of any officials who have to deal with them. They might be forced to the extremely difficult task of devising something intermediate between the spot reconversion program and the sweeping releases of the program of September 7.

For price control, a small shrinkage of war production after V-E day means that general inflationary pressures will continue, with a limited number of soft spots. A very heavy shrinkage might mean a general condition of deflationary pressures, starting from the basic materials. For finished products, a heavy shrinkage would mean that there would be more need of allowing the producers margins liberal enough to stimulate civilian production, at the same time that the more liberal scale of civilian production should make possible lower costs. Present probabilities seem to point to a shrinkage of more than 15 per cent, but nearer this figure than 40 per cent. However, policy needs to be prepared to meet a considerable range of possible outcomes.

In the immediate postwar reconversion, the natural trends of prices are no less uncertain than in the preceding period. There will be a hiatus in production and earning power both; and the question whether

the period will be prevailingly inflationary or deflationary will depend on a complex of morale and expectations, of wage policy and unemployment compensation, culminating in a readiness or unreadiness to spend accumulated war-savings aggressively and in large amounts. My surmise is that a wild rush to spend these savings, such as might create a price boom like that of 1919-20, is very unlikely. There will be problems of temporarily supporting prices of basic materials which may sag to an extent that threatens a wave of bankruptcies and consequent cumulative depressive effects. But the major durable goods are sure to be scarce, for various periods of time, the shortage of housing lasting the longest.

II. *Objectives and General Policies—Price Control*

The major objective of policy during reconversion is to facilitate a transition from war controls, which have one set of objectives, to peace controls, which have a different set. The key determinants of a transition are its starting point and its destination. In this case, the starting point is given by the war controls; the destination by the system of controls with which we shall face the longer-run problems of a peacetime economy. After that, there will be further transition, but presumably not so rapid. It is worth reminding ourselves that the degree of near rigidity involved in the policy of "holding the line" on prices and wages, necessary though it is, is not a primary objective inherent in the job of war control but is necessitated by certain features of the American situation. The primary objective of all war policy is to focus the utmost possible economic effort on winning the war, and proper price-control policy must be in harmony with this. Within this framework, the primary objective of price control is to prevent extreme, runaway inflation and all the evils that go with it, while permitting any price increase which is really required for the maximum war effort. Maximum war effort itself requires that runaway inflation be prevented. In the present mood of the American people, it probably also requires that war profiteering be restrained; and this is a further proper objective of wartime price policy. Neither of these objectives inherently and necessarily requires a rigid holding of the line. The reason why that is necessary—as I believe it—is that we are apparently at or near a critical point such that if prices or wages rise materially farther, a runaway inflationary spiral will be touched off; that is, prices cannot move a little without moving too far.

The reason for this critical point is the conflict between two standards of parity: the farmer's parity and the wage-earner's. The farmer's parity is familiar—a moving standard which rises with the prices of things farmers buy, including the prices of other farm products which

play a material part in the index of farm purchases. The wage-earner's parity is embodied in the principle that basic hourly wage rates shall never fall behind any increases in the cost of living. Under present war conditions, with greatly increased employment and longer hours, this calls for a very large increase in real weekly or yearly earnings per employed worker, a still larger increase in total pay rolls, and an increase in unit wage-cost of production resulting mainly from overtime rates of pay, wherever economies have not offset this increase. If the farmer gets his parity or better, and the wage earner gets his parity or better, an inflationary spiral seems unavoidable. If the upward pull of excessive purchasing power could be resisted—as in the main it can be while the war is at its height—there would still be the push of increased unit costs of production. Unit costs cannot increase very far without compelling an increase in prices.

This situation gave rise to the "hold-the-line" order and the "Little Steel Formula," which set a limit of 15 per cent on subsequent increase in basic wage rates above the level of January, 1941, and involved an implied undertaking to see that the cost of living does not rise too far beyond this percentage. This standard is under such strain that a break-through seems possible on slight additional provocation. For our present purpose, the conclusion to be drawn from this analysis is that OPA is under the necessity of standing stiffly against even small price increases, not because these increases would in themselves be seriously harmful, but because they would start a cumulative inflation which would have no natural stopping point short of economic disaster, and would not be easy to stop by measures of control, once it got well under way. When, as, and if this danger is removed, it will be possible for price control to follow a more elastic and more liberal policy in particular instances.

During the war, prices must be consistent with maximum output of war-essential goods; but the government does not have to rely on highly profitable prices as the sole or main positive stimulus to the production of munitions and related war supplies. To a limited extent, producers may be asked to produce war products on terms that might, in certain contingencies, involve either a loss on these particular products or a smaller profit than could have been earned from some other product; so long as their over-all earnings are adequate. In most branches of production, fairly close price control has been found consistent with adequate incentive. It seems to be only in agriculture and a few highly experimental war products that highly profitable prices and complete or partial freedom from price control have been judged necessary to adequate output.

While the war effort is taxing our manpower and some of our other

resources, it is no part of the country's proper war objective to grant prices which will stimulate any but the most essential civilian products. Neither is price control relied on as the active force to restrict non-essential production; that is more appropriately done by direct controls of production and manpower. Price control is supposedly neutral in this area; but in border-line cases it may properly give the benefit of the doubt to holding the line as against liberal treatment of producers or would-be producers.

Specific problems in this period include the method of allowing for increased costs, and whether to allow a percentage margin above costs, or the same dollar margin per unit of product as before the costs increased. One form of increased costs may come from the release of orders for conservaton of materials. The release may permit wartime deterioration of quality to be made good, and may be altogether desiderable, but may convert into an open price increase one that had previously been masked by quality deterioration. This may happen while price control is still forced to lean toward the side of parsimony.

This situation will change, and the benefit of the doubt will need to be thrown in favor of expanding civilian production, at the point where a shortage of manpower and complementary resources turns into a surplus, and the urgent aim is to find jobs for workers who need them. This might happen after V-E day, but only if war production shrinks more than now seems likely. But when this time comes in sight, there will be disagreement on two points: whether any given price is sufficiently liberal, and whether a surplus of manpower exists.

As to the latter point, we now have not underemployment but over-employment, by the equivalent of ten million or more persons, including overtime and emergency workers. It is no part of a proper national objective to maintain employment at this supernormal level any longer than war necessities require it. Rather, the objective should be to get the number of persons in the labor market down to an enduring peacetime normal as soon as the war effort plus really important civilian needs will permit. As an incident of this process, some transitional unemployment should be accepted.

But organized labor, and a considerable number of businessmen, will see their interests in maintaining the war-swollen volume of employment and output as nearly as possible and as long as possible. The President's message to Congress of January 6 uses languages which supports this idea. There may be strong pressure put behind the claim that the public interest requires every possible stimulus to increased civilian output, including liberal price ceilings, as soon as any unemployment appears and while the number of persons in the labor market remains several millions above normal. This would not be in the long-run interest

of either labor or business, and the granting of liberal price ceilings at this stage and on this ground would be premature.

Later, when total employment falls below a normal labor supply by more than a normal "float," there may be more reason for a more liberal price-ceiling policy. Actually, a more liberal policy of limited application may be warranted before there is a true over-all subnormal volume of employment, because it may be downright impossible to deflate the war-swollen labor supply promptly. Therefore, some stimulative measures may properly be taken before all the war-emergency workers have left the labor market, and possibly while aggregate employment is still supernormal, by the standard just mentioned. Methods are debatable, including the proposal made in the Brynes report of September 7, to use blanket percentage increases in the interest of speed. To reiterate the essential point: when the war effort first shows a substantial shrinkage, some transitional unemployment should be accepted as a healthy part of the adjustment; and price control should not be weakened or emasculated in a desperate effort to restore wartime standards of employment.

Another objective relates especially to the period during which supplies of consumers' durable goods will be short of demand, in spite of unrestricted production. The objective here is to make sure that this continuing war-caused scarcity is not made the basis of profiteering which would cut down demand, dilute the buyers' purchasing power, and would go beyond the level of profit that would serve any useful purpose in stimulating production. Here again there is likely to be general agreement on the principle. In fact, enlightened industrialists have already taken the position that reconversion pricing should be at a level which will develop a large volume of sales, and will be profitable only when sales have grown to quite large volume. Industry would probably enjoy having this matter left to its own farsighted self-interest; but this is not likely to be done while very substantial scarcities exist. Formal methods of control are likely to be modified, however; and there may be considerable disagreement as to what methods to use with respect to large-scale producers, small-scale producers, and dealers; and what kind of a limit on price and profit would meet the requirements of the general principle.

In general, price ceilings may be suspended when prices fall below them, and the situation watched until there seems no prospect of renewed price increases. Such renewed increases—leading to an intensified demand—might occur when postwar inventory building becomes active. Some modified form of inventory control, safeguarded so as not to restrict production, might be the most pertinent safeguard to prevent inventory building from leading to a boom like that of 1919-20.

As to the postwar readjustment of prices, it would surely be a mistake to adopt a specific price level as an objective and attempt to bring prices to this level, or close to it. The specifications for a desirable postwar domestic price level include the requirement that it should be one which would maintain itself in fair stability without artificial supports or restraints, either public or private. If that is an impossible requirement for the agricultural sector of prices, that fact will have to be accepted; but it is still not in itself desirable. As to international price relationships, the desirable thing is a relationship which will permit us to sell and buy in quantities consistent with a sound international movement of capital, without requiring rates on the international monetary exchanges which other countries would be unwilling to accept or would regard as a form of economic warfare. A third specification would be avoidance of violent disturbances of the domestic price level, either upward or downward.

Within these rather indefinite limits, there will be some inevitable readjustments in relative prices, including presumably reductions for a number of basic materials. For the rest of the price structure, the advantages of a moderate decline or a moderate advance in the price level are somewhat balanced, the decision hinging on which will make for fuller production and employment. A moderate rise in the price level normally accompanies an expansion, and has some stimulative effect, provided it comes about naturally as a result of strong demand. It would also have the effect of reducing the real fiscal burden of the war debt; but this would mean at the same time reducing the buying power of accumulated war savings, and of persons on fixed incomes generally. If an increase in prices is enforced from the side of costs, while demand is weak or hesitating, it would presumably not have the normal stimulative effect, and might have the reverse. General price increases do not ordinarily come about in this way, but the special conditions affecting wages in the postwar period may be such as to render it a thinkable possibility.

In the case of declining prices of basic materials, the manner of the decline may be important. We may assume that it is undesirable to attempt to peg prices for any long period above the levels which the markets would naturally set. But in these and other cases, a long period in which prices are slipping uncertainly downward is calculated to check a revival of buying and a building-up of inventories rather than stimulate it. Thus the decline has a self-exaggerating quality. It is desirable, if it can be managed, that whatever decline is coming should be a sharp and definite one, ending at a level at which reasonable stability can be expected. This is an important factor to be reckoned with in any attempts to steer or influence the immediate postwar transition of

prices. From this standpoint there is something to be said for a policy of stabilizing prices during periods of weakness and uncertainty, and releasing them when this will result in a prompt and substantial drop. There is even something to be said for, as well as against, the use of well-chosen support tactics to prevent the decline from overrunning itself by its own speculative momentum and bringing about unnecessary bankruptcies and shutdowns. Outright price floors are dangerous; stock-pile buying for support purposes is only less so. Though theoretically justified in extreme cases to prevent avoidable shutdowns or bankruptcies, it is hard to confine to the cases that warrant it.

III. *Objectives and General Policies—Wage Control*

Control of wages is largely a corollary of the attempt to prevent a runaway inflation; though underlying this is the more elementary aim to settle disputes, prevent strikes and keep war production moving. If it came to a clash between control of inflation and the preservation of the antistrike agreement, control of inflation would presumably be the one to give way; though an effort would be made to conduct a strategic withdrawal, with delaying actions, to prepared positions in the rear.

The Little Steel Formula represents a compromise between the objective already spoken of as labor's parity, and the need for some fixed limit on the height to which wages might be raised in the name of meeting rising costs of living. The two could be combined only if the cost of living were pegged at the same percentage increase allowed to wage rates. Accordingly, cost-of-living subsidies have been resorted to in the effort to keep this compromise in effect.

When war production tapers off, the aim of organized labor will be to raise hourly wage rates, to compensate for the loss of overtime and maintain, so far as possible, the increased purchasing power which has been secured and maintained during the war. These demands have a valve-action character, but this need not too much concern us. There will have been four years or more of increase in man-hour productivity (qualified by the effect of business taxes and by some remaining overtime) to help industry to absorb increases in basic hourly wages. There are, however, reasons of a different sort why, from the public standpoint, it may not be desirable to be in a hurry to grant these demands in full.

These reasons rest on the continuing danger of an inflationary excess of purchasing power, and the companion danger of pushing up unit costs of production and thus enforcing an inflationary wage-price spiral. Of the two the increase in costs is the more irresistible; and there should be no general wage increases which would increase unit costs to the point of forcing up prices. But the excess of purchasing power is not

negligible. Whether it will be a serious factor after victory in Europe depends on how far and how fast war production shrinks. Present prospects seem to point to a moderate shrinkage, such that the volume of purchasing power, though diminished, may still be greater than the volume of available consumer goods.

The course of prices since May of 1943 proves that it is possible to resist the pressure of such an excess, but this should not lead us to underestimate this particular enemy. Consumers may grow tired of long-continued abstaining from full use of their dollars, and patriotic readiness to put the dollars into war bonds instead of goods may weaken as the end of the war seems closer. Ultimately, it will be in the public interest that wages should be as high as possible without pushing up prices in a spiral; but the time when it will be safe to set this standard will be when the flow of consumers' goods is once more unrestricted.

IV. *Objectives and General Policies—Rationing*

As to rationing, it has perhaps earned a place as the outstanding instance of compromise between ideal objectives and administrative practicability. It aims to secure, not ideally equitable distribution of scarce products, but greater equity than if long purses were allowed unlimited hoarding. The aim of rationing might more realistically be described as seeing that everyone has the chance to buy enough to meet his minimum needs, even if others may contrive to get more. This is especially pertinent to the United States, where war scarcities have not bitten deep, as they have in Britain or Russia. The nearer a country is to total war effort, the less tolerant it can afford to be of letting some get more than others, and being forced to choose between a basic ration too low for efficiency, or robbing the war effort by retaining enough resources in civilian production to afford an adequate basic ration, plus something extra for the black markets. At the same time, unfortunately, the pressure to use the black markets grows stronger.

Aside from equity, rationing serves a more elementary purpose in simply limiting demand by a method other than bidding up the price. Thus it supports price control. This would be of use, even in the rather unthinkable case in which no improvement at all was made in the equity of distribution.

For practical purposes, rationing is limited to real necessities, and to cases of really substantial shortage. "Shortage" is, of course, relative to effective demand: witness the need of rationing food in this country at a time when we were better fed than ever before. Even within these limits, rationing ignores cases in which the administrative difficulties are insuperable or prohibitively burdensome. For example, ideally, a rationing program should be introduced without prior notice

except where advance hoarding can be offset by debiting the consumer for his existing stock. Actually, this would not be administrable, and prior notice is regularly given. Poultry is unrationed—rationing requires some point at which supply is sufficiently concentrated to be controlled. In shoe rationing, one rationed pair is as good as another, though the designers of the system clearly recognized that a coupon secures very different essential service values in different grades of shoes. Cigarettes are scarce but unrationed—for reasons easy to conjecture.[1] The labor involved in determining an index of individual need, for rationing purposes, is illustrated by B gasoline cards and household fuel allowances. Any great extension of this sort of thing would be prohibitively burdensome.

The alternative to regular rationing, with its inequities and compromises, is to let the dealers pacify their customers as best they can, with whatever degree of rough equity, inequity, and compromise they may attain. An intermediate method is to give the dealers rules to follow, such as the limiting of the size of single purchases which was widely employed in the last war.

These considerations may seem far from the problems of rationing during transition, but they have their bearings, and furnish a basis for judgments as to how long different kinds of rationing will continue. It seems self-evident that food rationing should continue as long as there are substantial shortages. One factor in American shortages consists of first-aid for the relief of distress in war-torn countries. It is to be hoped that this first aid will not be curtailed merely to make it possible to put an end to rationing in this country a little earlier. This issue might arise shortly after V-E day, when the supply of eastbound transatlantic shipping might permit somewhat more liberal shipments than at present, and when patience with rationing restrictions might be expected to wear thin. A mitigating factor is the availability of food supplies coming from other countries than the United States. An easing of strains on shipping should make the ravaged countries less dependent on food from this country. American farms are not the only ones in the world unharmed by war.

If every substantial shortage meant a rationing program, initial and limited reconversion would bring with it a great increase in rationing, as the country resumes limited production of many things which have not been rationed simply because their production was completely suspended. This will pose a problem at just the time when an extension of rationing will seem anomalous. Moreover, rationing of automobiles

[1] On January 15, the National Association of Tobacco Distributors announced its own consumer-rationing plan, under which dealers would assume the responsibility, which OPA declined, of determining who are regular users, entitled to ration cards.

or electric washing machines is the most burdensome kind of rationing, in which each purchase requires an individual certificate of need. It seems hardly thinkable that, for example, two million new automobiles a year, and other things in proportion, should be rationed in this way. This suggests the search for informal substitutes for outright rationing—possibly a scale of use-priorities—and means of implementing them.

V. *Conclusion*

Perhaps the most general principle bearing on transition policy in this area is the necessity of a flexible policy, prepared to meet either inflation or deflation, as the hazards of war may determine. A second is the need for a transition from general to selective price control rather than a simultaneous abandonment of all controls. Selective control becomes practicable when general inflationary pressures no longer exist, as it was not practicable in 1942. A third is the interdependence of price controls with other branches of policy, such as wage controls, inventory controls, production controls, and fiscal policy. A fourth is the necessity, if direct price controls are to be safely abandoned, of establishing the conditions necessary to reasonably healthy competition, which means imperfect competition, since there is no other kind. A final possibility is that direct price controls, even if abandoned, may need to be re-established if our method of dealing with unemployment consists solely of public spending, without effective measures to prevent monopolistic pressure groups from engaging in a parasitic scramble to convert the spending into increased money incomes for the privileged groups, at the expense of a high level of physical output and employment. We shall need to establish an economy of high consumption as well as high investment; and to this end the distribution of both money incomes and real incomes is likely to need more serious attention in the future than it has received in the past.

PRICE CONTROL POLICY IN THE POSTWAR TRANSITION

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Policies in wartime price control have to do with the coverage of control and with the standards and the methods employed in establishing maximum prices. The policies which have been developed by the Office of Price Administration over the past four years have been designed to restrain wartime inflation without impeding essential supply, and in this they have been remarkably effective. It does not follow, however, that they will be appropriate in the period of transition from war to peace. If price control survives the period of large-scale production for war, it will face new problems and may be compelled to modify its policies accordingly. It is the purpose of this paper (1) briefly to outline present policies, (2) to contrast the problems which will confront the price controllers during the major war effort and after it has ended, (3) to examine the possible objectives of price control in the latter period, and (4) to suggest the modifications in policy that may be required.

I

The law excludes certain prices from control, prohibits regulation of the prices of agricultural commodities and commodities processed or manufactured therefrom in whole or substantial part until specified levels have been reached, and authorizes the imposition of ceilings on other prices whenever they "have risen or threaten to rise." Where control is permitted, certain standards are prescribed. The maximum prices which are established must be "generally fair and equitable." In setting them, the Price Administrator must give due consideration to the prices prevailing between October 1 and October 15, 1941, or in the nearest two-week period in which prices were generally representative. And he must make adjustments for such relevant factors as general increases or decreases in costs and in profits during and subsequent to the year ended October 1, 1941. Prices affecting the cost of living are to be stabilized on the basis of levels which existed on September 15, 1942, but adjustments are to be made when necessary to aid in the effective prosecution of the war or to correct gross inequities. The prices of agricultural commodities must be maintained at levels which cover parity or a comparable price determined by the Secretary of Agriculture, must reflect increases in costs incurred by producers since January 1, 1941, and must be high enough to call forth

output required for war. The prices of goods processed from agricultural comodities must reflect the levels provided for such commodities and must allow a generally fair and equitable margin for processing. Those of cotton textiles must include, for each major textile item, a margin for profit in addition to the costs of materials and processing or manufacturing.

The statutory provisions leave many questions to be answered. First, what shall be the coverage of control? Shall it be selective or comprehensive? Shall certain products or producers be exempted and, if so, what principles shall govern such exemptions? Second, what shall be the standards of control? At what levels shall maximum prices be set? How low must a ceiling be to be generally fair and equitable to consumers? How high must it be to be generally fair and equitable to producers? If fairness and equity, in the latter case, are to be tested by the profits realized under controlled prices, how are these profits to be measured? Shall the test (in fields other than cotton textiles) be applied to each of an industry's products or to all of its operations? Shall profits be computed as a return on investment or as a return on sales? Shall the same rate of return be deemed sufficient for every industry or must different rates be allowed in different fields? Shall these rates be related to prospective risks or based upon previous experience? If the latter, what base period shall be employed? Shall a single ceiling be placed over all of the sellers in a trade or shall different maxima be established for different classes of sellers or for individual firms? If a flat ceiling is imposed, shall it be high enough to cover the costs of the highest-cost seller or only high enough to cover the costs of those making the bulk of the sales? If the latter, where shall the bulk line be drawn? What allowance shall be made for increases in costs and decreases in profits? Shall prices be permitted to escalate with costs or shall some absorption of cost increases be required? If the latter, how much? To what extent shall quantity controls or subsidies be relied upon and to what extent shall ceilings be modified as means of maintaining essential supplies? How shall essentiality be determined? What allowance shall be made for decreases in costs and increases in profits? Under what circumstances shall prices be cut and to what extent? Third, what shall be the methods of control? Shall ceilings be applied to margins or to final prices? Shall maximum prices be established through base-date freezes or through formulas or set forth in dollars and cents? Shall differential pricing be effected through freezes and formulas, through classifications in dollars and cents ceilings, or through individual adjustments? The provision of answers to questions such as these, within the requirements of law, has been the task of administrative policy making.

The coverage of control was selective during the first phase of the program; it became comprehensive when the General Maximum Price Regulation was issued in April, 1942. Ceilings have now been extended to virtually all of the prices within the jurisdiction of OPA save those on certain sales made by farmers and those of parts, subassemblies, and finished combat items in the area of military goods. The policy on exemptions has been tight. If a product is to be released from control, the effect upon the cost of living and the general level of prices must be insignificant and the action must afford no advantage to its producers in obtaining manpower and materials.

The levels at which maximum prices were first established, during the period of selective control, varied with the dates upon which ceilings were imposed. The continued maintenance of these levels has been the major objective of OPA policy. Where costs have pressed against ceilings, efforts have been made to avoid general price increases by reducing costs through standardization, simplification, and concentration, by rolling back prices which enter into costs, by differentiating the maximum prices applied to different sellers, by permitting high-cost producers to sell at prices above the general ceilings, and by providing subsidies. In some cases, flat subsidies have been paid to offset the increased costs of a whole supply; in others, differential subsidies have been used to cover the higher costs of marginal output. Where these devices could not be employed, however, the ceilings have been raised.

The standards governing such increases are now clearly defined. Under a general rule, called "the industry earnings standard," which applies without qualification to an industry turning out a single product, the statutory requirement that prices must be generally fair and equitable is held to be satisfied as long as the aggregate dollar profits received by the whole industry on all of its operations, before payment of corporate income and profits taxes, equal the average profits received in the prewar years 1936 to 1939, inclusive, plus or minus a comparable rate of return on net increases or decreases in investment since that period. Profits, in general, have been larger than those required for general fairness and equity, thus defined, since prices, in most cases, were initially frozen at levels which yielded higher returns. But where costs have risen and profits have declined, the industry earnings standard has come into play. Prices are not permitted to escalate with costs. As long as the standard is satisfied, absorption of cost increases is required.

This is the general rule; there are exceptions. Industries suffering reductions in volume may be held to prices which cover current direct costs plus normal overhead per unit of output. Industries that were abnormally depressed in the base period may be permitted to shift to

another base or to charge prices which cover current bulk-line costs. Industries producing several lines may be permitted to raise the price of one of them even though the industry earnings standard is satisfied. Here a supplementary rule, called "the product standard," is employed. Under this rule, the price of an individual product is held to be generally fair and equitable as long as industry earnings are adequate and the price itself covers out-of-pocket costs (but not selling or administrative costs, reserves, or profits) for the bulk of the output. And finally, prices higher than those required for general fairness and equity may be permitted when necessary to obtain essential supplies. Here the fact of essentiality is established by obtaining certification from an agency responsible for supply, and prices are adjusted either by permitting marginal producers to sell above the ceiling which applies to the rest of the trade or, where this is impracticable, by raising the ceiling to cover their costs.

Similar standards are employed in granting maximum prices above the general ceilings to individual concerns. Here again essentiality must be established and comparison of the applicant's over-all profits with his average profits in 1936-39 determines whether the maximum price on any one of his products shall be set at a level which covers factory cost, total cost, or cost plus a profit.

The standards which govern reductions in prices are less clearly defined than those applied to increases. The prices of supplying industries may be reduced where necessary to avoid a price increase for a purchasing industry. Prices above those prevailing on the dates specified by statute may be reduced to or toward those levels. And prices may be cut still further where there has been a sharp decline in costs. But the latter reductions will not be made unless it is clear that production will be maintained and that the resulting savings will be passed on through subsequent stages to the consuming public or to the government.

The methods of control are diverse and elaborate. Ceilings on prices are applied to standard goods sold by producers and to many of those sold by distributors. Ceilings on margins are applied to nonstandard goods sold by producers and are widely used in regulating the charges of distributors. Base-date freezes were extensively employed in the early stages of the program and are still in use. Pricing formulas are provided for sellers of nonstandard goods and new goods and for new sellers. Detailed schedules of maximum prices, set forth in dollars and cents, have been imposed upon hundreds of industries. Most of the latter ceilings establish uniform maxima for all sellers. But differential pricing is implicit in the freezes and the formulas, is explicitly introduced into many dollars and cents schedules by classifications of sellers,

and is provided by granting individual adjustments. It is recognized that margin controls, freezes, formulas, and uniform ceilings are relatively loose and that dollars and cents schedules and differential pricing are relatively tight. OPA has accordingly favored the employment, wherever practicable, of the latter methods of control.

These, in brief, are the present policies. Insofar as they have faced the test of judicial review, their legality has been confirmed. When explained at length and in detail to committees of Congress, they have been allowed to stand. In general, they have proved to be appropriate to the task of checking inflation in time of war.

II

It is probable that the war will be followed, sooner or later, by a boom in the production of civilian goods. But the situation in which the price controllers will find themselves during the months that come immediately after the abandonment of large-scale war production is far from clear. Heavy demands for consumers' durables, exports, inventories, industrial equipment, and building construction may create inflationary pressures in many lines. But reduction in public expenditures, unemployment, contraction of labor's income, hoarding of consumer savings, and caution in reconversion may make for deflation. The balance of these forces is unpredictable. The problems that will be presented are obscure. Flexibility in policy will therefore be required.

It is certain, however, that the situation will differ materially from that which exists today. During the war, total demand has exceeded total capacity, shortages have been general and inflationary pressures universal. After the war, total capacity will exceed total demand, shortages will be specific, and inflationary pressures concentrated. This change will have important implications for policy. First, it will affect coverage. During the war, failure to control the prices of nonessential goods might have diverted manpower and materials to their production, thus curtailing the output of essential goods. Comprehensive coverage has therefore been the rule. After the war, resources can be employed in the production of nonessentials without reducing supplies elsewhere. Since it will no longer be necessary to check expansion in such fields, it may be expedient to exempt them from control. Selective coverage will probably suffice. The new situation will also affect the standards of control. During the war, there has been little danger that tight ceilings would prevent the production of essentials, reduce total output, or check employment. If products were needed, the agencies concerned with supply have seen to it that they were produced. If prices have curtailed production in one line, the resources thus released have found

employment in another. Strict standards have done no harm. After the war, however, the consequences of tight pricing might be serious. No public agency is likely to be charged with the responsibility of insuring that particular goods are produced. And if ceilings discourage production, the resources thus denied employment may well remain unemployed. Some relaxation of standards may be imperative.

The implementation of price control is bound to weaken as the program passes into its final phase. During the war, the distribution of scarce materials under fixed prices has been accomplished through priorities, allocations, and inventory controls. The reluctance of producers to supply goods at these prices has been overcome through the power to issue mandatory orders and production directives. Price increases have been forestalled by standardization and simplifiacation programs and by the payment of subsidies. And the pressure of competing demands upon limited supplies of consumers' goods has been held in check by rationing. But only subsidy, among these devices, has been designed primarily to support the control of prices. The objective of rationing has been that of insuring equity in distribution. The objective of the other controls has been the provision of goods required for the prosecution of the war. Their contribution to the stabilization of prices, though important, has been incidental; it has frequently been made with some reluctance. After the war, it is probable that many of these supports will be withdrawn. Differential subsidies have won general acceptance where they have been employed, but the extraordinary conditions of demand and cost which have occasioned such payments will disappear. The flat subsidies to producers of foodstuffs are politically unpopular; their chances of survival would appear to be small. Rationing may well be continued, in some form, as long as there are marked shortages in the supplies of essential civilian goods. But the other quantity controls are unlikely to survive. Their purpose, as it was conceived, will have been served. No criterion to govern their employment in peacetime can be defined with sufficient clarity to insure their continuance. Their incidental contribution to the prevention of inflation will not suffice. And as these supports are removed, it will become increasingly difficult to enforce strict standards of control.

It can hardly be supposed that the political climate, in the postwar months, will be hospitable to any continuation of control. It should be recalled that the enactment of the original statute was delayed for months by political opposition, that the act was laden with hampering provisions, and that its administration has been subjected to continual attack and shorn of necessary powers. And all this has happened during the war, while the danger of inflation has been plain. Under its present terms, the price control law will expire on June 30, 1945. As long as the

war lasts, it is probable that it will be extended, however grudgingly, for six months or a year at a time. After the war, the possibility of further extension will depend upon the situation which obtains on the date when the act expires. If this date should come during a boom, the chances of continuance will be better. If it should come during a slump, they will be worse. In either case, the action of Congress will be influenced by the pressures that are brought to bear upon it by organized groups of producers. And the nature of these pressures will depend, in turn, upon the character of the policies that govern the administration of the law. Price control, in this period, will be on probation. If its powers are to be retained until the threat of postwar inflation is past, they will have to be exercised with some restraint. The choice politically will not be made between tight control and loose control, but between loose control and no control at all.

The maintenance of an effective administrative organization will become increasingly difficult. During the war, the importance of checking inflation has been clear, the appeal of patriotic service strong, and the prospect of tenure adequate. It has therefore been possible to recruit and hold a staff of sufficient size and ability to administer detailed regulations under rigorous standards of control. After the war, the significance of the enterprise will be less appreciated, its prestige low, and its existence precarious. Able members of the staff will return to their peacetime employments or seek new connections in which some future is assured. The numbers and the average quality of the administrative personnel will undoubtedly decline. At the same time, increasing insistence upon the requirements of due process will add to the administrative load. In these circumstances, it will be expedient to sacrifice perfection of control to ease of administration. For this reason, if for no other, it seems probable that standards will be liberalized and methods simplified.

III

It is sometimes argued that the postwar situation calls for a complete reorientation of price control, that the objective of preventing inflation should become secondary, and that other purposes should take its place. It is said that OPA should direct its policies primarily toward the promotion of full employment and the achievement of a reallocation of resources appropriate to the needs of peace. The importance of these goals, of course, is clear. But the desirability of attempting to attain them through price control is open to question.

Consider, first, the objective of full employment. This might be approached in one of three ways. Maximum prices might be established at levels that would be low enough to reduce wage and other costs,

stimulate international trade, and expand sales in the domestic market. They might be set at levels that would be high enough to maintain labor and other incomes, yield attractive profits, and induce private investment. Or they might be fixed at intermediate levels that would do both—or neither. In no case, however, would there be precise criteria to disclose the levels that would be required. Nor would the instrument of price control, alone, produce the desired results. The removal of obstacles to trade and employment and the stimulation of investment and consumption require a vigorous antimonopoly program, international economic co-operation, and appropriate monetary and fiscal policies. It may be doubted, moreover, that the price controllers would be permitted to follow a consistent line. Once the purpose of manipulating prices to promote employment was publicily espoused, political rather than economic considerations would determine the levels at which they would be set. And if market prices fell below the maxima permitted by law, minimum prices might be provided, under new statutory authority, to hold them there. Full employment is scarcely to be promoted by the establishment of a postwar NRA.

So, too, with the reallocation of resources. It is true that comparative price-cost-profit relationships among industries and among the several products of any one industry, at the end of the war, will not be those that would be best calculated to accomplish this reallocation in accordance with consumers' preferences. The structure of relative prices will have been insulated, in large measure, from market forces. It will reflect the compulsions of war. And it will be distorted by inequalities in the conditions, the policies, and the enforcement of price control. Where profits are low, it may be that products were standardized, that markets were well disciplined, that ceilings were imposed at an early date, that dollars and cents schedules were employed, that differential pricing was introduced, that expansion of output was not considered essential, that standards were rigorously applied, or that sellers were co-operative. Where profits are high, it may be that products were unstandardized, that markets were chaotic, that goods were exempt from control, that ceilings were tardily imposed, that preferential treatment was required by law, that freezes or formulas were employed, that prices were set to cover bulk-line costs, that expansion of output was considered essential, that standards were laxly applied or that sellers were recalcitrant. The resulting relationships will afford an imperfect index to current needs. Hence the suggestion that ceilings be so adjusted as to establish a structure of prices that will be appropriate to the transition from war to peace. But here, again, the task transcends the faculties of price control. Criteria are lacking; there is no way of telling precisely what the postwar allocation of resources should be. Powers

are insufficient; reallocation is scarcely to be accomplished through the manipulation of ceiling prices. Authority is wanting; the guidance of production is not within the mandate given OPA. It is certain, moreover, that Congress would not long countenance the enterprise.

This does not mean that the price controllers can ignore the influence of their ceilings upon the volume of employment and the reallocation of resources. But it does mean that the sole function of the present program is that of preventing inflation. During the war, this function must be performed without interfering with the production of essential military and civilian goods. After the war, it must be performed without checking employment or obstructing reallocation. But these considera- are not purposes of control. They are merely limitations upon its exercise. During the war, such limitations have not prevented the employment of rigorous standards. After the war, they may do so. It is not the responsibility of OPA, affirmatively, to guide the transition from war to peace. It is the responsibility of that Office, negatively, to remove any obstacles that its controls may have placed in the way of that transition. If a structure of prices conducive to full employment and appropriate to an economic allocation of resources is to be achieved, without public intervention, the forces of the market must be given freer rein. Some prices must be allowed to rise, while others fall. A moderate increase in the general level of prices may be required. And this movement may safely be permitted; as long as control is retained, it need not get out of hand.

IV

The shift from comprehensive to selective coverage will require revision of present policy with respect to exemptions. It will no longer be necessary to retain control over all goods whose prices may be significant in the general level of prices or the cost of living. Nor will it be desirable to check the movement of manpower and materials into the production of nonessentials. The presumption, in every case, should favor decontrol. Where demand is clearly in excess of capacity, ceilings should be retained. Where demand declines and prices fall, but the danger of speculative increases still is plain, ceilings should be suspended rather than removed. But where this danger is remote, exemption should be the rule.

In those cases where control is retained, the policy governing increases in prices should be liberalized. The industry earnings standard will no longer be appropriate. The base years of 1936-39 will have receded into the past. The principle that no industry should claim a larger aggregate profit, on the same investment, than it realized in those years will have lost its significance. Continuance of such a limi-

tation, in the postwar period, would be inexpedient as well as unjustifiable. There is no reason to suppose that profits equivalent to those of 1936-39 will be adequate to induce a desirable volume of employment. And if resources are to be shifted into the production of wanted goods, the earnings of expanding industries must be allowed to grow accordingly. As such shifts are made, of course, the provision for a further return on net additions to investment will become increasingly important. But it cannot be assumed that the prewar rate of profit, in every industry will be adequate to encourage re-employment. The present standard, moreover, would hold most industries to profits far lower than those they have enjoyed during the war. It would seem tough to business; it would be difficult to enforce. The solution is probably to be found in a standard which measures profits, not as a return on investment, but as a return on sales. Under such a standard, allowance could be made for differences in risk by relating margins, industry by industry, to those obtained before the war. Maintenance of production could be encouraged by setting prices at levels that would afford such margins on the bulk of an industry's output. And adjustment of aggregate profits to changes in volume would be automatic.

The product standard, too, should be modified. Even though an industry's over-all profits are ample, it will no longer be desirable to hold the price of a single line to a level that does no more than cover out-of-pocket costs. Variation in production and shifts in volume should be encouraged rather than restrained. Such shifts will occur, of course, if the present standard is retained. But the movement, in this case, will be from products whose margins, under controlled prices, happen to be low to those whose margins happen to be high. And this movement cannot be prevented, once the controls on production have been removed. It is unlikely, however, to effect the distribution of resources which consumers would desire. The comparative profitability of different products, at the present time, bears no necessary relation to the pattern of postwar demand. If an economic allocation is to be accomplished, profits on some lines must be allowed to rise while those on others fall. The solution, here, is to be found in a standard that will place each product on its own feet, fixing its maximum price at a level that will cover costs and afford a profit for firms accounting for the bulk of the supply. In administration, this may be achieved by shifting from dollars and cents to formula controls or by requiring industries applying for increases in dollars and cents ceilings to present complete data on product costs.

In those cases where the excess of demand over supply necessitates the retention of ceilings, upward adjustment of the maximum prices of individual producers will still be practicable. But such adjustments

can no longer be limited to cases of essential supply. There will be no agencies competent to determine essentiality and no criteria by which such a determination can be made. Indeed, from the point of view of employment, all supply will be essential. Here, too, dependence of relief upon comparison of current aggregate profits with those of 1936-39 will be untenable and establishment of maximum prices that fail to cover total costs and yield some profit will be inexpedient. If profits on sales made under bulk-line ceilings fall below their prewar levels, individual producers may well be permitted to charge prices that will cover total costs and yield a moderate return. Liberalization of the standards governing general increases, however, will reduce the number of such adjustments to a minimum.

The standards employed in the postwar pricing of goods that are currently in production will also be affected by the policies adopted in placing ceilings on goods that are not now being produced. New goods will be introduced, new producers will enter old fields, products that have been off the market for years will again be made, and firms that have discontinued the production of goods still on the market will reconvert. In all of these cases, establishment of maximum prices will be difficult. Recent cost data will be lacking. Future costs will be uncertain. The character of returning products and the materials and methods used in their manufacture may have changed. Wage rates and the prices of materials may have risen. But the productivity of labor may be higher; the effort required and the concessions made in selling may be lower. The total cost of production and distribution may have risen or declined. The future volume of sales and its influence on unit costs will be unknown. The levels of maximum prices will have to be set by guesswork rather than research. If they should be set too low, reconversion might be inhibited, re-employment checked, low-margin operations eliminated, new enterprise discouraged, and production concentrated in the hands of the more powerful firms. If these consequences are not to be risked, liberal prices will have to be allowed on reconversion goods. If this is done, however, the standards presently applied to other goods will have to be relaxed. An inconsistent policy would be unfair and unwise. It would involve an indefensible discrimination among producers. It would prevent the allocation of resources in accordance with consumers' preferences.

Changes in the methods as well as in the standards of control may be required. Controls that apply to prices rather than margins, freeze ceilings, and dollars-and-cents schedules will be getting out of date; they will be relatively rigid, and their adjustment in individual cases will be burdensome. Margin controls and formula ceilings are comparatively flexible; they can permit individual adjustment without formal

action. Flexibility, in this period, will be desirable. Prices should be allowed to change, within limits, in accordance with changes in costs and in demand. Prices that are controlled should be allowed to seek a proper relationship with those that are not. Administrative detail, moreover, should be minimized. It may therefore be wise, where practicable, to shift from price to margin controls and from freezes and dollars and cents schedules to formulas.

The policies that have been contrasted here are those that are appropriate when the nation's economy is producing for war and when it is converting to peace. As long as the shortage of resources is such that strong inflationary pressures persist, it is clear that present policies must be maintained. Thereafter, the timing of the transition will depend upon the changing economic requirements of warfare. And these requirements will depend, in turn, upon the character and the duration of the war. The shift in policy may be gradual or abrupt. It may or may not be under way before the final armistice.

POLITICAL AND ADMINISTRATIVE ASPECTS OF PRICE CONTROL IN THE WAR-PEACE TRANSITION

By Merle Fainsod
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The broad outlines of OPA price strategy for the war-peace transition have recently been set forth with admirable clarity by Chester Bowles, Administrator, in a memorandum addressed to all members of OPA Advisory Committees and entitled, ***Our Pricing Objectives in the Reconversion Period.***

This memorandum deserves careful analysis, both for what it reveals and for what still remains to be revealed. The memorandum, while primarily devoted to the problem of pricing civilian goods which have been off the market during the war, is also concerned with civilian goods which have remained in production during the war period. For civilian goods which have continued in production during the war, no departure from existing price standards is contemplated, at least as long as inflationary pressures remain general and severe. A strong effort will apparently be made to hold the line at present ceiling prices, except for such minimum price increases as may be required by law. It is not expected by the Administrator that many such upward adjustments will be necessary.

For products which have been off the market during the war—chiefly metal-using items in the consumer durable goods field—the general objective will be to establish ceiling prices at 1942 levels—the prices which prevailed when manufacturers of such items converted from civilian to war production. It is anticipated that increases in wage rates and prices of materials which have occurred in the interim will be, for the most part, capable of absorption without undue hardship. There will, however, be cases where new prices will be needed. "In those cases," the Administrator promises, "where an increase over the 1942 price level is really needed to bring any product back on the market, an increase will be given. We will make every effort to set ceilings at a point that will lead manufacturers to expand, not restrict, their production."[1] The criteria to be used in determining this point, however, are not indicated.

The memorandum then sets forth the administrative procedures to be observed in reconversion pricing. Manufacturers who are prepared to resume production at 1942 prices, or lower, may do so without obtaining OPA approval. In all other cases, OPA will assume the re-

[1] Chester Bowles, ***Our Pricing Objectives in the Reconversion Period*** (OPA memorandum to all members of Advisory Committees, Oct., 1944), p. 7.

sponsibility of establishing proper ceiling prices. Ceiling prices for the twelve major consumer durables—including automobiles, refrigerators, radios, and washing machines and representing about 80 per cent in dollar volume of the total reconversion pricing problem—will be established by the OPA Washington office after industry-wide conferences and studies. Ceiling prices for reconverted products not on the key list of twelve major items will be determined by OPA district offices on the basis of a set of standards to be furnished by Washington. The standards to be used in determining such price adjustments, however, are not disclosed in the memorandum, although Mr. Bowles reveals that "a complete plan, including pricing standards for the smaller manufacturers, . . . has been fully developed."[2] It is also hinted that some manufacturers of consumer durables—those doing less than a certain annual volume of business ($100,000) or those producing minor parts or miscellaneous products—may be altogether exempted from price control, provided this can be done without endangering effective controls in the rest of the consumer durable goods field. These then are the salient features of OPA's pricing strategy for the reconversion period as they have so far publicly emerged. This paper proposes to discuss some of the political and administrative problems involved in implementing the strategy.

The problem of standards in reconversion goods pricing will first be examined. The Bowles position, as has already been indicated, contemplates a return to 1942 price levels, where possible, and upward adjustments above 1942 levels, where necessary "to bring any product back on the market." It is obvious that this position will have to be spelled out with more precision, before it can be properly evaluated, either by industry or by the public generally. In the non-reconversion goods field, OPA, after much travail, finally evolved and announced a policy or set of administrative standards to govern increases in ceiling prices, which, while not necessarily popular with the interests affected, has at least come to be widely understood and has survived both legislative and judicial scrutiny. Detailed clarification of OPA's policy on reconversion goods price adjustments must still be awaited.

The task of defining such a policy does not promise to be an easy one. Even if it be assumed that the industry earnings standard and the product standard already worked out in the non-reconversion goods field are carried over into the reconversion goods area, a major difficulty remains. That difficulty arises out of the large element of conjecture involved in appraising the profitability of operations which have still to take place at the time when the initial price decision has to be made. In evaluating the case for a price increase in the non-reconver-

[2] *Ibid.*, p. 7.

sion goods field, OPA has commonly relied on a record of experience. The cost-price-profit relationships that are under examination are objective facts that can be measured with some degree of precision. Little or no weight has been given to conjectural projections based on anticipated future developments of uncertain character. In the case of reconversion goods pricing, however, the situation is very different. The manufacturer who is applying for a price has not been producing the item for three or more years. In some cases he may be beginning production for the first time. There is no current record of production experience. What data are available on cost-price-profit relationships date back to 1941-42 or earlier. To be sure, increases in labor rates and material prices since that period can be determined with some exactness. But there still remains much that cannot be determined with any exactness. What weight shall be given to increases in labor productivity in correcting for increases in labor rates? What allowances shall be made for special starting up expenses or reconversion expenses such as reconditioning and reinstalling equipment and retraining labor? What shall be the gauge of proper selling, administrative, and other overhead expenses in the kind of market to be anticipated during the conversion period? On what volume of output shall future cost-price-profit estimates be made? What time period shall be used in making these estimates?

To pose these questions is to emphasize the extent to which reconversion goods pricing is necessarily pricing by conjecture. But the projections into the future which this form of price administration by guesswork requires may also involve important policy choices on the part of the price control agency. Each element in the projection may be built up to make a case for a price increase or may be trimmed down to prevent it.

Thus efforts to enforce tight standards in reconversion goods pricing would probably take the form of requiring absorption of cost increases since 1941-42, at least to the extent that such absorption has been required in civilian goods industries which have continued in production over the intervening period. Increases in labor productivity would be taken into account in recalculating unit labor costs. Special reconversion expenses, if not disallowed, would be treated as costs to be accounted for over a long period. High estimates of selling and administrative expenses would be frowned on as inconsistent with an anticipated seller's market. Projections of future operations would be based, not on the temporary low volume of the starting up period, but on the cost-price-profit ratios likely to be established when the difficulties of getting under way have been surmounted and high volume and efficient production runs have been attained.

Adherence to a set of standards such as the foregoing may well run into difficulties in terms of the Price Administrator's own insistence that OPA pricing policy "must not stand in the way of the manufacturer's desire to produce to the limit of his capacity," and "must encourage the continued payment of high wage rates."[8] Rigid standards which greatly restrict profits will almost certainly be greeted by the consumer durable goods industries as both standing in the way of production and as furnishing little incentive to the payment of high wage rates.

The problem is likely to be particularly serious for small manufacturers without adequate liquid reserves. Manufacturers with sizable liquid reserves would probably encounter little difficulty in resuming civilian production under the conditions indicated above. On the other hand, the small manufacturer with little in the way of liquid reserves might find himself barred by overtight pricing standards. It is probably considerations of this sort, as well as of administrative convenience, that have led OPA to explore the possibility of altogether exempting small manufacturers of certain reconversion goods from price control after V-E day. While such an exemption policy might lead to cries of discrimination on the part of the larger producers as well as to price rises which might be difficult to explain to consumers, these results would seem to be inescapable if provision is to be made for the special position of small business. The only alternative to an exemption policy would appear to be an adjustment policy specially designed to meet the situation of the small manufacturer without adequate liquid reserves to weather the storms of the starting up period.

If the pricing objectives stated in the Bowles memorandum be taken as an official expression of OPA policy for the reconversion period (and there seems to be every reason why it should), it seems reasonably certain that OPA will make every effort to hold the price line as long as inflationary pressures are serious. While the danger of inflation remains general and severe and maintenance of the present precarious balance between the cost of living, wages, and farm prices is dependent on holding the price line, the case for tight price control appears economically unassailable.

But even if the economic wisdom of the planned OPA pricing strategy be granted, there still remains the question of whether it will be politically feasible to follow the charted course. The first test will come this spring, when the Price Control Act, which expires June 30, 1945, will come up for renewal. The test would be all the more severe if victory and cessation of hostilities in Europe should happen to coincide with Congressional consideration of renewal of OPA powers.

A blind and unreasoning revolt against war controls that would

[8] *Ibid.*, p. 4.

sweep OPA into the discard at that time seems highly improbable. Despite grievances and resentments against war restrictions, a "back to normalcy" movement will find difficulty in gathering momentum as long as the war in the Pacific is still approaching its climax and lengthening casualty lists cast their pall over the exhilaration of V-E day. Responsible business leaders, with the memory of the short-lived and disastrous inventory boom of 1919-20 still fresh, are unlikely to press for OPA liquidation. Labor, as it begins to face the prospect of a decline in the weekly take-home wage as a result of the curtailment of overtime, should look more than ever to OPA for protection on the cost of living. Farm groups, too, as they weigh the effects of an imminent decline in the peak war demand for food and fibers, may be expected to recapture a degree of consumer consciousness. That consciousness should be heightened by the very real sensitiveness of farmers to the prices of farm implements, tractors, automobiles, and other consumer durables that will be coming on the market as the end of the war approaches.

Even if no strong move develops to abolish OPA, that does not mean that there will not be considerable pressure to relax the standards of price control. Memories of the 1944 legislative battle on renewal are still fresh. Despite a masterly presentation of the OPA case by Mr. Bowles, despite general expressions of legislative confidence in the agency as it had been reshaped by the Administrator, and despite the fact that the basic pricing practices of OPA survived legislative scrutiny, some limitations on the Administrator's power to curb inflationary price increases were imposed. Distributors were powerful enough to secure the elimination of the highest price-line limitation. The cotton bloc was successful in securing the enactment of the Bankhead amendment, which required the upward revision of a number of textile ceilings. Legislative opposition to any expansion of the consumer food subsidy program was reiterated.

What form future efforts to relax the standards of price control will take, is, of course, difficult to predict in advance. What is not difficult to predict is that such efforts will be made. Should profits of industry begin to shrink, because of increasing costs, declining volume, or for other reasons, the safety factor, which up to now has cushioned most industries from the impact of the relatively stringent criteria which determine eligibility for OPA price adjustments, will disappear, and the attack on the cost absorption policies of OPA is likely to become a frontal one. This attack may well be spearheaded by the reconversion goods industries, should OPA insist on general adherence to 1942 prices in the face of industry contentions that the agency is not making appropriate allowances for costs which have increased in the interim

or for the special outlays involved in resuming production. Should manufacturers of reconversion goods be allowed higher prices and efforts be made to prevent these increases from coming through to the consumer by narrowing the margins of distributors, it can be anticipated that retailers and distributors generally will return to the legislative fray with an amendment designed to guarantee them customary, or historical, margins. If past legislative history is a safe guide, amendments will be introduced to bring relief to every industry that feels, or thinks it feels, the pinch of price ceilings. Such amendments will be presented persuasively as necessary steps to assure high wages and provide the profit incentives to encourage maximum production. Offered in this alluring guise, they may be politically difficult to resist, particularly if cutbacks in war production lead to local pools of unemployment, and all attention is centered on clearing the way for resumption and expansion of production of civilian goods.

Even should OPA emerge unscathed from the legislative arena, with V-E day its administrative troubles may be expected to intensify. Two major sources of difficulty may be anticipated: one internal to OPA itself, and the other involving problems of co-ordination with other war agencies.

The first crisis is likely to be one of personnel. Will OPA be able to hold its staff and maintain its efficiency as a going concern? The turnover in responsible posts in the OPA organization has been high, even during the Bowles regime. OPA is an emergency war agency, renewing its authority from year to year. It offers no career possibilities. A high percentage of its staff has been recruited from private business, from the universities, and from the legal profession. When the war in Europe ends and victory over Japan seems not too far distant, OPA may well find itself confronted with a rush of businessmen back to private employment, calls from the universities for their professors to return, and lawyers who begin to think about private practice or more permanent government posts. It is difficult to see how a decline in the efficiency of the agency can be avoided. It will require the greatest kind of skill on the part of the Administrator to maintain organizational cohesiveness and staff morale for the important price control tasks which may still lie ahead.

The problems of co-ordination with other war agencies are likely to be equally difficult. These agencies, like OPA, will be facing the prospect of early dissolution, and in the case of some, notably the War Production Board, the flight of personnel back to private business may be even more disorganizing than in OPA.

OPA's problems of co-ordination with other war agencies, are, of course, not new. From the inception of the price stabilization program,

they have been a persistent source of difficulty. The WLB's wage awards have not always been consistent with a tight "hold the line" policy on the price front. The responsibilities of the War Production Board and the supply organizations of the Armed Services for the production of war goods have sometimes led them to advocate price policies that were not easy to reconcile with the stabilization program. On the other hand, OPA has often had difficulty in persuading the WPB to use its powers of simplification, standardization, and allocation where the exercise of such powers in the civilian goods field would have helped greatly to ease the price control task. Differences of opinion between PAW and OPA over oil prices and WFA and OPA over agricultural prices have been the rule rather than the exception, and illustrate the continuing conflict between the production agency bent on making price incentives serve its purpose and the price agency seeking production directives to strengthen its controls. As a result of these conflicts, agencies of co-ordination such as the Office of Economic Stabilization and the Office of War Mobilization have had to be created, but the differences which they seek to adjust do not lend themselves to easy reconciliation. They are deep-seated expressions of an agency's conception of its prime responsibilities and its loyalty to its special clientele. As such they continue to permeate agency activities at the working level of day-to-day operations despite high policy directives which dictate otherwise.

During the reconversion period problems of interagency co-ordination are likely to present themselves in intensified form. Two examples may serve to illustrate the problem: (1) the relations between the WLB and OPA; (2) the relationships between WPB and OPA.

The relations between the WLB and OPA are at present governed by the superior co-ordinating power of the Office of Economic Stabilization. The Office of Economic Stabilization may prevent wage increases from going into effect which would involve price increases. As long as this procedure remains in effect, and the Administration is prepared to hold firm on the wage front when a break-through of the price line is threatened, no serious difficulties for OPA from this direction need be anticipated. The problem of co-ordination is likely to become more serious with the tapering off of war production. The decline in overtime which may be anticipated will bring with it a considerable shrinkage in the weekly take-home wage, and powerful unions may be expected to press for an increase in hourly rates to help make up the difference. How vigorous the campaign of organized labor for higher hourly rates will be, of course, depends partly on the tempo of industrial activity and the extent of unemployment during the transition. Whether anticipated declines in unit labor costs as a result of curtailment of overtime

and increases in labor efficiency will permit upward adjustments of hourly wage rates without some price increases still remains to be seen. In all probability, the picture will vary greatly from industry to industry. Given a quick recovery after the initial cutbacks, the labor campaign for higher hourly rates is likely to be a vigorous one indeed, and an Administration committed to the philosophy of maintaining purchasing power and as strongly in debt to labor as the present one may well find it expedient to make concessions to this pressure. Given this setting, the problem of co-ordinating wage and price policy during the transition does not promise to be an easy one.

The relationships between WPB and OPA during the transition period raise questions of a somewhat different character. Here the major problem is managing the decontrol plans and procedures of the WPB in such a way as to ease OPA's price control task rather than to impede it. A disorderly liquidation of WPB's production controls could contribute greatly to wrecking any hopes of a successful price stabilization program for the transition. In the first stages of demobilization, while the national demand for war materials and manpower still remains high, it can be anticipated, following the precedents already established, that authorizations for the resumption of civilian production will continue to be granted on a spot basis. Such spot authorizations are likely to be guided, not by the price at which goods can be sold, but primarily by the local availability of material and manpower not required by war industries. Manufacturers seeking to resume civilian production in the initial instance are apt to be high cost producers whose war contracts have been terminated first precisely because of their high cost character. Because of manpower and materials uncertainties they may well find themselves faced with the prospect of resuming production in low volume and in driblets. Unless prior arrangements can be worked out with WPB by which such plants are afforded materials and components adequate enough to make possible efficient production runs, a barrage of applications to OPA for price increases seems almost inevitable.

Should WPB go through with its announced intention to eliminate controls, except for war items, over most materials and manufacturing immediately after V-E day, the immediate pricing problems of OPA are likely to increase greatly in complexity. The abandonment of simplification and standardization orders by WPB will produce a rush of new styles and models in many fields and a demand for their immediate pricing. It is no secret that the OPA formulas for the pricing of new goods have not been among the strongest dikes in holding back the inflationary tides. A wave of price increases may thus be suddenly incorporated into the price structure, unless new goods formula pricing

can be much more effectively administered than it has been in the past. Even more serious are the difficulties likely to arise if a wild scramble for inventories follows the abandonment of allocations and priorities for all goods except war items, and the supply situation in certain fields is still tight. In such a scramble, the small producer and the new producer without established sources of supply are apt to lose out. They are likely to go into civilian production with an uneven flow of materials and components; the resulting bottlenecks will interrupt production and increase costs. To be sure, these bottlenecks may only be temporary characteristics of the initial stages of the conversion period, but while they last and until they disappear, they will generate pressure for price increases to cover the increased costs entailed. There is danger in too sudden lifting of the WPB controls without adequate attention to their impact on the price stabilization program. The closest possible working relations between WPB and OPA need to be maintained to insure that WPB decontrol plans do not wreck the hopes of effective price stabilization during the transition period. Should the organizational problems which face WPB after V-E day be such as to make unmanageable a policy of selective decontrol, consideration might well be given to the possibility of delegating to OPA such WPB allocation and priority powers as may be needed by OPA in order to discharge its price control responsibilities properly.

The discussion thus far has been largely concerned with political and administrative problems to be anticipated in attempting to restrain inflationary pressures that may assert themselves during the war-peace transition. How serious and how long sustained such pressures will be is another question. Economic prognosticators are by no means agreed as to the extent to which inflationary or deflationary forces will predominate in various phases of the transition. There are major uncertainties to which time only can give a conclusive answer. How long will the war last? Will the interval between the defeat of Germany and Japan be short or long? How sharply will the present rate of war expenditures be curtailed in the event that V-E day precedes the invasion of Japan? What scale of military expenditures will we maintain after the defeat of the Axis? What rehabilitation commitments will we be prepared to undertake in Europe and Asia? Will victory in Europe or Asia release a flood of consumer spending or will spending be curbed by the uncertainties of the economic future? What measures will government be prepared to take to avoid or mitigate large-scale transitional unemployment? With these and many other questions still to be answered, it would be a rash prophet indeed who ventured more than a juggling of alternatives.

Meanwhile as the war draws to a close, OPA faces precisely this

difficult task of adjusting its policies to shifting contingencies. It stands committed to the elimination of price control as rapidly as possible. In the Administrator's words, "As soon as there is no further danger of price increase in a particular commodity field, there will be no reason for price ceilings in that field and we will drop them. . . . The exact timing will vary widely from item to item. But, working with Industry Advisory Committees we will watch each field closely. We will rely heavily on their recommendations as to when controls can be safely removed."[4]

Thus the program envisaged is one of selective decontrol. Demobilization will take place as inflationary pressures recede. While the precise criteria to be used in timing the removal of controls are not indicated, presumably controls will be lifted when a study of supply and other market factors indicates little or no danger of a further inflationary price rise in that particular field. Presumably, too, the completion of the grand design will come when OPA is completely liquidated, its records transferred to the Archives, and prices and price relationships are left largely to be determined by the forces of the market place, national and international, anonymous and otherwise.

As thoughts turn to the problem of attaining a high production, full employment economy in the postwar world, it may not be amiss to raise the question whether there is anything to be carried over from the OPA experience into the years of peace. Our prewar practice of leaving price administration largely to administrators without benefit of government portfolio has not always guided real resources into the most productive channels. Insofar as it is given us to look into the future, it seems highly likely that many of the problems of the prewar years will reappear, some of them in intensified form. We shall still have to deal with entrepreneurial pricing policies based on high unit profits and curtailed production. Given the impetus to business collaboration provided by the war, these policies may bulk more important than ever before. We shall face a much more compactly organized and politically influential farm bloc projecting the rigidities of legislative price floors into the price structure of the postwar years. We shall be dealing with a far larger and more highly organized labor movement capable, in all probability, of carving out a sheltered position for its wage rate structures, even in the face of considerable unemployment. There is at least room for considerable doubt as to whether the interaction of these individual and group interests will automatically produce a set of price relationships calculated to produce and maintain high production and full employment.

There may be equal, or greater, ground for skepticism as to the

[4] *Ibid.*, p. 7.

ability of a peacetime government price-fixing agency to contribute substantially to the achievement of these objectives. Certainly those OPA veterans who have experienced the difficulties of devising price controls under the relatively favorable conditions of a unifying and clearly defined war objective have a vivid appreciation of the complexities of the task and little or no appetite for it. From the point of view of practical politics, the likelihood of the perpetuation of the price-fixing powers of OPA on a permanent basis in the postwar years is very remote indeed.

Yet, it may be worth urging that something be salvaged from the OPA experience. During the war the OPA has accumulated in its files invaluable information on cost-price-profit ratios and trade practices over virtually the whole range of American industry. These data, if they can be continued and kept up to date in the postwar years, may go far to provide the basis for obtaining a realistic sense of the dynamic role of price changes and price interrelationships in directing resources toward their most productive uses and in influencing the total amount of employment, production, and income in the economy. If the residuary legatee of OPA be nothing more than an Office of Price Analysis, staffed by a group of competent economists, collecting data and analyzing the flow of information—industry by industry—and calling attention to the danger spots in developing price situations and price interrelationships as they appear—that alone may turn out to be a not unimportant contribution to the mastery of the problems of cur economic future.

DISCUSSION

PAUL M. O'LEARY: The three papers presented at this round table give us one of the most penetrating and best-informed treatments of the problems and methods of wartime price control that exists. Since they treat mainly of price control in the transition period between war and peace they are largely forward-looking, but the first part of Professor Wilcox's paper certainly constitutes one of the most compact and illuminating discussions of price control coverage, standards, and methods that we are likely to have.

I believe it is accurate to say that all three speakers feel that wartime price control has been more successful to date than it is likely to be in the transition period that lies ahead. Professors Fainsod and Wilcox seem to be more doubtful about the social contribution which formal price control can make in the transition period than is Professor Clark. Undoubtedly their own administrative experiences in OPA, and their awareness of the extent to which the difficulties of maintaining a really competent staff has already manifested itself, contribute strongly to their doubts. They see little likelihood that OPA will be able to hold together a competent operating organization in the transition period. Already it is becoming apparent that OPA must depend heavily on two groups to maintain its personnel—a fairly stable group of lawyers who hope to continue in government service and a shifting group of businessmen supplied by their companies with a mixture of motives, some good, some bad, but all subject to a fairly high turnover. Economists have been of great service to OPA. But their influence seems to be diminishing.

No organization made up of such personnel is likely to do well the necessarily intricate and refined job of price control which all three speakers distinguish so sharply from the much simpler "hold the line" type in which stubborn tenacity, legal adroitness, and Judge Vinson's watchful presence count for more than economic wisdom. Professor Clark makes it clear that the necessity for holding the line has been the result of the conflict between two standards of parity: "the farmer's parity and the wage-earner's." I should like merely to note in passing how these two "standards"—one of farm prices and the other of straight time hourly wage rates—have bedeviled the whole stabilization program. They have forced that program to be one of merely resisting price increases by all means at hand instead of one of flexible, functional control. The price structure which has resulted is naturally one which must be "thawed out" and rearranged, with innumerable changes in price relations when the general pressure of war spending on all prices has begun to abate and price relations should again assume their directive functions. Professor Wilcox sees this very clearly. I do not see how anyone can quarrel with his conclusion that the restoration of functionally sound price relations "transcends the faculties of price control," that "the forces of the market must be given freer rein," and that "it is the responsibility of OPA, negatively, to remove any obstacles that its controls may have placed in the way of that transition." We should remember that relations among wage rates, too, will need rearrangement when wartime controls are lifted. These relations are now quite artificial. They should not be stabilized as they are.

Some wage rates will have to come down while others should probably rise.

All three papers recognize that price controls should not be lifted abruptly. In the period of transition, price control must become increasingly selective instead of general. Its problems become qualitative rather than quantitative. The peculiar difficulties of reconversion pricing—that is, the pricing of articles which have been out of production since 1942—receive special attention from Professor Fainsod. It is among these consumers' durables, plus possibly men's apparel and perhaps certain foods, if harvests are below normal and UNRRA is able to perform its great task, that price pressure is likely to continue longest.

The issues which emerge in a consideration of these problems bring me to comment on what I believe to be the greatest omission in these three papers: their failure to give adequate attention to the importance of rationing in the stabilization program. My own background may subject me to the charge of being biased in this matter, but I must insist that rationing has played a much greater part in making the stabilization program reasonably effective than seems to have been generally recognized.

Up until now price controls, production, and materials controls, wage controls, and rationing have been, in the main, consistent one with another. The War Production Board's control of the demand for industrial materials and the OPA's rationing control of the demand for certain consumers' goods have contributed tremendously to the relative success of price control. In fact it is probably valid to assert that price control outside these areas has largely failed except where as in the case of certain nonrationed foods unsually bountiful harvests have done what price control alone never would have done. The failure of OPA to ration used automobiles when it put price ceilings over them has given us an example of price control at its worst; that is, when it stands alone and tries to control prices in a nonconcentrated market merely by legal edict and threat of enforcement proceedings.

The unmeasurable but unquestionable increases in apparel prices as a result of quality deterioration, upgrading, and simple "black marketing" is another case in point. Bold production controls plus apparel rationing could have held the price line at a much lower level. To control prices when supplies are short, demand must be restrained. Legal edict alone is not enough. When rationing controls have been weak and ration currency inflated as in the case of most foods during 1944, "black market" prices have become widespread. One large soft drink manufacturer has even been charged with paying "black market" prices for sugar last summer when a lax home-canning sugar program resulted in rationed demand exceeding sugar supplies. When sugar rationing was tightly administered sugar price control was no problem at all. Late in January, 1945, the New York *Times* reported that small kerosene users in New York were being compelled to pay "bonuses" to fuel oil dealers amounting to almost a 100 per cent increase in the price of kerosene. Ration currency was in excess of kerosene supplies and kerosene price control broke down except in the *Federal Register*.

If OPA is really to hold a tight price line, at the retail level, on the major consumers' durables during the period of reconversion it must insist on the maintenance of a comprehensive scheme of controls over the use and dispo-

sition of the materials from which the goods are made and it must be prepared to control the sale of the finished product. Professor Clark sees this clearly but he is doubtful as to the administrative feasibility of using certificate rationing where several million items must be licensed for sale each year. He mentions as a possible substitute a "scale of use-priorities" administered presumably by retailers themselves. I am only too well aware of the administrative difficulties of certificate rationing, but I believe that Professor Clark overestimates them. Certainly OPA's 5,600 Wartime Price and Rationing Boards could carry a considerable burden of straight certificate rationing of consumers' durables, especially as their other programs begin to lighten up. Obviously there is a limit to the rationing boards' capacities. But those limits are also the limits beyond which it is not feasible to try to push really tight price control. In brief, what we are not able to ration through the boards we better leave out of any really tight price controls.

Dealer rationing under a "scale of use-priorities" is a very bad kind of rationing. In fact, any dealer rationing is bad rationing. It places the buyer at the mercy of the seller. Consequently it shoots price control to pieces. At this very time the position of fuel oil consumers on the East Coast is generally much better than that of coal users though fuel oil supplies are still relatively lower than coal supplies. Fuel oil users are protected by a carefully worked out system of formal coupon rationing while coal users are at the mercy of their dealers. The contrast is instructive.

I shall conclude my remarks by saying that what it is not able to ration OPA should not subject to really tight price control in the reconversion period. Of course it can go through the motions of issuing tight price schedules. At the producer level it can, in some cases, make those schedules fairly effective, but at the retail level they will be frustrated in dozens of ingenious ways. The result will be merely the unjust enrichment of the dealer at the expense of the consumer and the manufacturer and a general discrediting of price control. I believe the three papers making up this round table support me in this position, though they fail to place as much emphasis upon the crucial contribution of rationing to price control as I do.

Certainly on their own grounds they raise many doubts as to the wisdom of OPA's trying to carry its "hold the line" policy very far into the transition period and they demolish without question the validity of any proposal to continue OPA as an agency of systematic control in the postwar period.

Elmer B. Staats: I have been asked to discuss the papers presented by Messrs. Clark, Wilcox, and Fainsod, with particular reference to administrative and organizational implications, including interagency problems suggested in these papers. In discussing this problem from an organizational and administrative viewpoint, it is perhaps important to state the assumptions as to just what we mean by the transition period. I think it is realistic to assume that we are talking about the period after major hostilities in Europe have ceased and extending to the termination by the Congress of the authority of the federal government to control prices and distribution. To state these assumptions a bit more in detail I think that we can assume: (1) that the war with Japan will last beyond V-E day; (2) that cutbacks after V-E day will begin

the period of demobilization of wartime controls and the resumption of greater volume of civilian production, but that the war with Japan will require high levels of production for military purposes; (3) that the basic statutes upon which price and rationing controls are predicated will not be amended to restrict the government agencies concerned unduly; (4) that inflationary pressures will not be terminated with the first declines in prices resulting from readjustments in production schedules; and finally (5) that there will be powerful forces for both inflation and deflation, directly related to wartime shortages, beginning with the initial stages of readjustment and extending well into the postwar period.

Rather than discuss each of these papers in detail, I should like to elaborate briefly upon three major points which each of the speakers appears to me to be in agreement and which, from an organizational and administrative point of view, seem to be of prime importance. Following this, I should like to point up briefly two or three aspects of the problem which may have been emphasized inadequately in these papers.

I believe that there is agreement that our anti-inflationary controls are highly interdependent and that price and rationing during this period cannot succeed unless these controls are adequately co-ordinated. Secondly, each of the papers emphasizes the practical difficulties which will face the government agencies during the transition period in maintaining necessary controls in the face of the desire to relax government restrictions, inability to retain personnel, and what may appear to be a conflict with a program for full employment by industry. Thirdly, the changing patterns and methods of price control resulting from changed conditions will have important implications for the organization and management of these controls.

Interdependence of Controls. Mr. Clark in particular emphasizes that rationing and production controls, such as standardization, simplification, concentration, etc., have been used to a minor extent only to implement price controls. He might have added that other types of government controls, such as taxes, consumer credit, subsidies, etc., likewise have been used sparingly to this end. An argument could be made that extensive use of such controls has been unnecessary to hold the line, but I wish to emphasize that the failure to use these controls to a greater degree has made the price control job more difficult.

It was not until October, 1942, that the interrelationship of stabilization controls was recognized organizationally in the establishment of the Office of Economic Stabilization. This office, moreover, has largely assumed a judicial role of arbitrating differences between the Office of Price Administration and the War Food Administration on agricultural prices and in passing on wage increases where price increases might result therefrom. It has not been adequately staffed or organized to assume the positive leadership required to "formulate and develop a comprehensive national economic policy relating to the control of civilian purchasing power, prices, rents, wages, salaries, profits, rationing, subsidies, and all related matters . . ." as provided in the executive order establishing the office. Tax matters have been left largely to the Treasury Department and, consumer credit regulations have been issued by the Federal Reserve Board. OPA is represented on an intragovernmental consultative

committee on consumer credit controls established by executive order in August, 1943, although the committee has been inactive since the issuance of Regulation W by the Federal Reserve Board. Production directives for civilian goods, including specifications, have been prescribed by the War Production Board and other war supply agencies only to a very limited extent, and even then it appears that such programs have been activated largely by the OPA. The OPA has been denied authority by statute to prescribe standards of quality in its regulations, other than those issued by another government agency or in common use by industry itself, except when there is no other practical means of control. Similarly, in the case of subsidies, the OPA has no funds at its disposal and each subsidy program has been effected only after discussion with and concurrence of the financing agency. Consumer rationing of scarce commodities has been regarded as a matter of equitable distribution and authority has been placed in the supply agencies—War Production Board, War Food Administration, Petroleum Administration for War, and Solid Fuels Administration for War—to determine the need for rationing. It is accurate to say, moreover, in such matters of wage policy, military procurement, and contract termination, which have a direct bearing on the price stabilization program, the OPA as an agency has been in a weak position in that it has no direct authority in these areas, although it can always carry its advice on these matters to the Director of Economic Stabilization or the Director of War Mobilization and Reconversion. Only in the case of rent control can the OPA proceed with relative independence of other governmental agencies.

With greater emphasis on civilian production, it will become even more important for the agencies concerned to work under common policies and to establish machinery for joint consideration of matters bearing upon the economic stabilization program. Matters of taxation, consumer credit, production controls, subsidies, contract termination, export controls, etc., will continue to have a direct effect upon the government's efforts to stabilize prices. Formal interagency machinery which has been lacking to date may prove to be essential, particularly between OPA and WPB. WPB limitation orders have tended to restrict demand for scarce commodities and to this extent have been helpful in lessening inflationary pressures. WPB orders have, in many cases, included standards and specifications which provide definitions of quality around which price regulations have been built. It has also resulted in fewer types or models being manufactured, thus simplifying the enforcement problem. The importance of these controls to the stabilization program may require their retention even when they are no longer required to maintain military and essential civilian production.

Practical and Political Difficulties in Maintaining Controls in the Transition Period. It may be useful to underline a point which possibly has been made adequately; namely, that it is unrealistic to consider the matter of price stabilization during the transition period except in terms of the administrative and political difficulties with which price control will be faced. There is a very real danger that some Congressional and administrative officials will be anxious to relax price controls as soon as prices begin to decline in some fields. Stabilization officials, however, have a strong argument in World War I lessons to point out the serious dangers in such a policy. The desire to be rid of irri-

tating controls plus the desire to effect economies in government expenditures could easily result in serious handicaps being placed upon efforts to control prices in the transition period. Compliance with OPA regulations at all levels of distribution may become more difficult to achieve than under direct wartime conditions. The apparent conflict with a program for full employment, in addition, may well result in desire to be rid of any supposed handicap to private incentives to produce or to begin new enterprises.

The feeling that the war is over may also present a practical difficulty to the OPA in retaining competent personnel. Volunteer members of local ration boards may feel that it is less important to give their time in this manner. Business and university men, who have contributed so greatly to the program, will be anxious to establish themselves in their former positions.

It is difficult, if not impossible, to predict fully the seriousness of these potential difficulties. It does emphasize, however, that the stabilization officials must make every effort to persuade groups in the economy to continue government controls as long as necessary. These officials must also keep the Congress well informed of its needs and must persuade employees to continue with the government—in many cases at a great personal sacrifice to these employees.

Administrative Implications of Changing Patterns and Methods of Price Control and Rationing. Policies governing price control and rationing in the transition period will have important implications for the organization and management of the OPA and other stabilization agencies; these policies must, moreover, take into account the practical administrative difficulties which will be faced by the government during this period. It has been stated, for example, in the preceding papers that tight controls may not be so important during the transition period and that margin and formula controls may be sufficient to prevent inflationary price increases. It may well be that the types of control maintained by the government will have to take into account an inadequately staffed field organization and a general reluctance on the part of industry to accept other types of controls. These policies will have implications not only for size of the organization required but must also take into account the need for specialization in the field offices. If great emphasis is to be placed on pricing determinations and price adjustments, the OPA might well consider the desirability of fewer district offices but with greater specialization of personnel. If chief reliance is to be placed, however, upon self-pricing through margin or formula controls with post-review by the OPA, such commodity specialization may not be so important.

A further illustration of this problem presented in the administration of rationing is that the difficulties of obtaining necessary staff and public acceptance to detailed rationing controls may force the adoption of a less effective, and less burdensome, type of distribution controls. If new civilian production is permitted, the question immediately arises as to whether the government, through the OPA or the WPB, will attempt to distribute these items in relationship to need. For example, will new automobile production, new refrigerators, etc., be rationed or will the government set aside a stock pile for essential users and permit the remainder to be distributed without controls?

Assuming, as I have, that new production will come about gradually and

that there will be no sharp cutbacks in military production, there will be presented a problem of timing OPA pricing determinations with WPB and WMC actions granting permission to individual manufacturers to resume production. Unless OPA is prepared to furnish the manufacturer with a price at approximately the same time he is permitted the use of labor, material, and facilities, public criticism and possibly unemployment as well as hardship to the manufacturer could result from such delays.

These matters are raised as further ramification of some of the problems referred to in the preceding papers. Three other aspects of the organizational problem appear to me to warrant passing reference before concluding this discussion. I believe that none of the speakers has referred to rent control in his statement, possibly because rent control has been one of the most effective of the OPA programs and has presented relatively fewer problems. It is significant, however, that the need for rent control has tended to become more generalized and less directly attributable to local population increases resulting from war contracts or the establishment of military camps. In other words, the general increase of population, together with increased public buying power in a period of limited construction of new housing, has placed pressures upon rentals far greater than was originally anticipated. It may well be, therefore, that some decision will be needed as to whether rent control should not be extended until the backlog in housing has been largely overcome. If the Congress should recognize this as a problem, the question further arises as to whether the function should be retained in a separate agency such as the OPA or whether it should be merged with an existing agency such as the National Housing Agency.

The enforcement of OPA regulations and obtaining voluntary compliance is one of the most significant administrative aspects of the entire OPA program. OPA in a large sense has become a public symbol of the entire stabilization effort and to a large extent has borne the brunt of public criticism on matters of wages, shortages of civilian goods, housing, etc. The fact that the OPA has been able to convince the vast majority of the people of the adequacy of the government's stabilization program has made its enforcement and compliance program possible, although it is recognized that adequate enforcement machinery is essential to the maintenance of a healthy respect for stabilization controls.

As a matter of interest, also, I should like to emphasize some of the problems which the government faces in the eventual demobilization of OPA's controls. What becomes of the vast amount of information and data collected by the OPA? How can it be used most effectively by the government and private individuals? How much of this data should be transferred in total to other users, such as the BLS and the Bureau of Census? What becomes of the function of obtaining quarterly financial reports of corporations for which OPA has performed a central service for the entire government during the war? How adequate will the story of the government stabilization program be preserved for use in the case of eventual national emergencies or in postwar governmental relationships with industry? These are some of the significant problems to which personnel of the agencies concerned with the stabilization program might well devote some thinking and planning.

ORGANIZED LABOR AND THE PUBLIC INTEREST

THE RESPONSIBILITY OF ORGANIZED LABOR FOR EMPLOYMENT

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I

This discussion of the responsibility of organized labor for employment will fall into two broad parts. To begin with, I wish to discuss how collective bargaining affects the structure of wages and the behavior of wages and to deduce from these results some effects of collective bargaining upon employment. Then I wish to inquire to what extent and how trade unions and the labor movement might assume responsibility for the level of employment in the community.

II

How would the wage structure in a world of collective bargaining differ from the wage structure in a world of free markets? Under free markets wage rates for the same occupation or for different occupations which require men of similar degrees of skill or responsibility *tend* to equalize the attractiveness of jobs in different places, in different industries, and in different firms. The wide and persistent differences in the prices of given types of labor in different plants or different places, however, suggest that a variety of powerful and persistent influences are molding the wage structure. Consequently, even in free markets wage differences fail to equalize the attractiveness of the jobs in given occupations. The large spread in wages between large cities and rural regions, for example, appears to be greater than is needed to compensate for the lesser attractiveness of city life. There appears to be a pronounced tendency for wages to be higher in industries in which labor cost is low than in industries in which labor cost is high; to be higher in firms which are prosperous than in firms which are not; and to be low in industries in which a high proportion of the work force consists of women.[1] These differentials do not seem to be needed to equalize the attractiveness of jobs in these various types of enterprises and industries. Collective bargaining, therefore, must be regarded simply as an addition to many other influences which are determining the structure of wages.

Although collective bargaining does not obliterate the influences

[1] More precisely the wages of male workers in industries employing a high proportion of women are low in relation to the wages of male workers in the same occupations in other industries.

which have been making the pattern of wages in free markets, it does introduce a powerful new influence; namely, the relative "bargaining power" of unions and employers. In a world of collective bargaining the wage structure must be expected to reflect (a) the sacrifices which the workers would have to endure and their willingness to make those sacrifices in order to put the price of labor above the free market price (the workers' demand curve for a higher price of labor), and (b) the sacrifices which employers would have to endure and their willingness to make sacrifices to keep the price of labor from rising above a given point (the employers' resistence curve). In this paper I shall not attempt to explore the influences which determine the level and slope of workers' demand curves or of employers' resistence curves. The curves will have different slopes in different industries and for different occupations and the point of intersection will be at varying heights above the free market price.

The varying success of unions in bargaining wage increases may be expected to create "wage-distortion" unemployment in some industries, occupations, and places. Where the price of labor (and the working conditions) negotiated by a union is particularly favorable to labor, substantially more men than are needed will attach themselves to the industry, the occupation, or the place. The excessive number of men will remain indefinitely because they will prefer intermittent work at high wages and under attractive conditions for a limited proportion of the time to steadier jobs under less attractive wages and conditions. Hence, wage-distortion unemployment is a normal result of differences in the relative bargaining power of unions and employers.

It is easy to find examples of wage-distortion unemployment. In a world in which collective bargaining is limited to less than half of the work force, nearly every trade union attracts a surplus of labor to the industry, occupation, or place. Conspicuous examples of wage-distortion unemployment are found in the needle trades. The powerful and well-run unions in these industries have done much to increase the attractiveness of work in the several branches of the industry. They have raised hourly earnings, protected the employees against arbitrary treatment on the part of management, and, in many ways, made shop conditions more attractive. People are easily drawn into the needle trades by attractive working conditions. The work is light and clean; the factories are accessible. Much of the work can be done by women, who might not otherwise be in the labor market at all. The reduction in the length of the working week to forty hours and to thirty-five hours (the latter is the standard under many union agreements in the needle trades) has made the industries particularly attractive to women. As a result of the success of the unions in improving hourly earnings and

working conditions, there has been an enormous increase of workers relative to jobs in all of the needle trades.[2] The dollar output of women's and children's apparel, for example, dropped from 1.4 billion dollars in 1923 to 1.3 billions in 1939; but the number of wage earners more than doubled, rising from 133,195 in 1923 to 279,402 in 1939.[3] In the men's and boys' clothing industry, dollar output dropped sharply from 1.0 billion dollars in 1923 to 681 millions in 1939, but the number of wage earners increased slightly from 158,173 in 1923 to 161,731 in 1939.[4] The increase in workers relative to jobs is reflected in the reduction in the average annual "take-home" compensation of the workers which in the production of women's and children's apparel dropped from $1,324 in 1923 to $920 in 1939 and in the production of men's and boys' clothing from $1,311 in 1923 to $971 in 1939.[5]

Union membership and collective bargaining are concentrated in the cities where the growth of jobs is greatest and where the natural increase in population is least. Indeed, if no one were allowed to enter or leave the large cities of America for the next twenty years, the population of these places would drop by about half a million.[6] Between 1920 and 1940 the population of the country increased by nearly 25.9 mil-

[2] In view of the fact that compensation per hour has gone up and in view of the additional fact that many of the women employees in the needle trades do not wish to work too steadily, the drop in the annual take-home is not necessarily to be interpreted as an unfavorable development.

[3] Joel Seidman, *The Needle Trades*, p. 335.

[4] *Ibid.*, p. 340.

[5] The experience in the needle trades raises interesting questions concerning the concept of unemployment. To what extent is the "excessive" labor supply in the needle trades to be regarded as unemployed? Present methods of measuring unemployment would cause a worker who wishes nine months' employment a year and who obtains only seven months' employment to be counted unemployed for five months of the year, not two months. The worker is always seeking more work. Consequently, he (or more likely she) is regarded as unemployed throughout the entire period of idleness.

It is interesting and important to explore how long and to what extent wage distortion unemployment remains unemployment. This depends upon one's definition of unemployment. The inquiry would lead one into further explorations of the nature and meaning of unemployment. In the course of time chronic unemployment in a community becomes a way of life and becomes leisure rather than unemployment. This does not mean that people do not work at all. Rather they work only six or eight or nine months of the year. They become adjusted to this and find ways of utilizing their idle time. That makes idle time become leisure. The shoe cities and textile cities of New England furnish examples of unemployment which contains important elements of leisure. The people would like more work, but they are strongly attached to the community and prefer intermittent employment where they are to following the textile industry or the shoe industry to other places.

[6] Thompson and Whelpton have projected the natural increase between 1920 and 1930 to 1960. With no rural-urban migration, the urban section would lose 500,000 workers or 0.8%; the rural section would gain 21.3 million or 3.9%. National Resources Board, *Report of the Land Planning Committee*, 1935, Pt. 2, p. 97, quoted by R. B. Vance, research memorandum on "Population Redistribution Within the United States" (S.S.R.C., Bulletin 42), p. 33.

The concentration of the increase in population in the rural regions is reflected in the ratio of persons below ten years of age to total population. In rural regions one out of four persons in 1940 were less than ten years of age; in the cities, less than one out of six.

lion. About 3.3 million of the increase was the result of net migration from abroad. Had there been no migration from abroad or from farms between 1920 and 1940, the nonfarm population would have increased only from 74.4 million to 84.2 million (instead of to 104.6 million); but the farm population would have increased from 31.4 million to 41.5 million (instead of dropping to 30.2 million). In the same period the number of jobs increased by over 5 million. The increase in jobs was entirely in nonfarm occupations. A large movement of population from country to city is needed in order to prevent a further accumulation of surplus population in the country and the development of acute labor shortages in the cities.

Does collective bargaining help or hinder the adjustment of the geographical distribution of population to jobs and of jobs to population? Since collective bargaining is mainly concentrated in the cities, it tends to increase the differences in compensation between city and farm employments. This encourages capital to move to nonurban regions where it is badly needed. It tends, however, to increase wage-distortion unemployment in the cities because (a) it increases the excessive labor supply which will remain attached to urban industries and (b) it retards the expansion of urban industries and of urban employment needed to absorb the influx of job seekers from the country.

Union membership and collective bargaining are also concentrated in the North and Far West where wages have always been high relative to the South. It is a reasonable presumption that collective bargaining has tended to increase wage differentials between northern and southern plants. As labor is abundant relative to capital in the South and capital is abundant relative to labor in the North, a differential between North and South wages is needed to improve the geographical distribution of both labor and capital.[7] Insofar as unions have accentuated this differential, they have tended to accelerate the movement of capital into the South and of labor into the North. Unions, of course, have not intended to produce this result. On the contrary, as fast as unions establish themselves in the South, they endeavor to reduce the differential. The miners' union, the steel workers, and, to a less extent, the textile workers have made considerable progress in organizing the South in recent years. From now on the effect of unions upon the differential between the North and South will probably be the opposite to what it has been. Whether one regards the influence of unions upon the distribution of labor between the North and the South as desirable or undesirable will depend upon whether one desires a faster or slower movement of labor and capital than would be induced by the differentials created in free markets.

[7] Although labor in general is abundant relative to capital in the South, some types of labor, particularly managerial labor, are very scarce in the South.

III

The structure of wages produced under collective bargaining may affect the volume of employment by modifying either the consumption function or the investment function. So far as I am aware, no attempts have yet been made to determine what patterns or uniformities may exist in the distribution of relative bargaining power among employers and unions. Possibly the distribution of bargaining power is a random one. In this event, it would have little effect upon either the investment function or the consumption function. It is possible, however, that bargaining power may be distributed so as materially to affect the volume of investment opportunities or the propensity to consume. This would be true if trade unions were particularly powerful among: (1) persons engaged in industrial research and in discovering new industrial processes; (2) management and persons charged with administering enterprises; (3) workers engaged in making capital goods and in doing construction; (4) workers engaged in transportation; (5) salesmen, advertising men, and others whose activities affect the propensity to consume; (6) workers engaged in the service industries who are producing goods which are elastic in demand; (7) workers engaged in making luxury goods which are bought in the main by the well-to-do and which are inelastic in demand; and (8) employees engaged in making consumption goods which are inelastic in demand.

A concentration of bargaining power among the first four groups of workers would tend to reduce investment opportunities and thus to limit the demand for labor; a concentration of bargaining power among the fifth and sixth groups would produce a consumption function that is less favorable to employment than would be produced by free markets. On the other hand, a concentration of bargaining power among the seventh and eighth groups would tend to produce a consumption function which would be more favorable to employment than would be produced by free markets. This would be particularly true of the concentration of bargaining power among the seventh group of workers.

These observations require little comment. Whatever raises the cost of discovery and of administration may be expected to diminish the flow of new investment opportunities. The cost of transportation has important effects upon investment opportunities because it determines the limits within which "deepening" of capital is advantageous.

How is bargaining power actually distributed among workers in different economic categories? No thorough statistical studies which might yield an answer to my question have been made. There has been little organization among the first two groups of workers. In the last several years, however, organization has started in both fields. Construction workers have been among the first to organize and are

among the most strongly organized workers, at least in the commercial and industrial fields. In the early days of the country, the demand for most types of construction was probably quite inelastic. Hence, the strong bargaining position of some construction workers was not an important deterrent to expansion.[8] Indeed by forcing increases in expenditures on expansion it may have stimulated the entire economy. As the country grows older and as replacement demand increases in importance, the demand for construction will probably become more and more elastic. Consequently, increases in the cost of construction, whatever their cause, may limit the general level of employment in all industries.

Until recently there has been little trade unionism in the metal working industries which turn out industrial equipment. That situation has now been changed. One might expect a high degree of organization among the handicraftsmen who make luxury goods. Special investigations, however, would have to be made to determine whether or not there is a concentration of unionism among these workers. Luxury-goods industries in the United States are relatively unimportant. There is no evidence of concentration of organization in industries producing consumer goods that are inelastic in demand.

It is important that men who design machines and manage plants and, until recently, the men who build machines, have not been organized. This state of affairs may well have limited the results of the concentration of bargaining power at any point upon the structure of production costs. At any rate, if technology is sensitive to union pressure for higher wages, increases in rates may have little effect upon labor costs. This matter will be discussed in the next section. Now that organization is spreading into research and management and has become well established among the mechanics who build machines, collective bargaining may have greater effects upon costs.

IV

Does union pressure for higher wages increase investment opportunities by accelerating the rate of technological discovery and do union rules limit investment opportunities by retarding the rate at which discoveries are put into use? Lieutenant Gordon Bloom, who has been investigating these matters, has reached the tentative conclusion that the effect of union bargaining pressure upon technological discovery is slight.[9] So long as bargaining power is relatively weak among the de-

[8] The relatively high wages of the construction workers' unions attracted superior mechanics into the organizations. The fact that the workers engaged in producing machines have not been organized encouraged mechanization of parts of construction. All in all, it is doubtful whether unions in the construction industry have greatly increased costs.

[9] Further investigations by Lieutenant Bloom, of course, may lead him to modify his

signers of machines and among engineers and other research technicians, one might expect the pressure of unions for higher wages to stimulate the search for laborsaving inventions. Even if the relative bargaining power of unions and employers were the same in all industries and all occupations, the pressure of unions for higher wages would presumably increase the attractiveness of laborsaving inventions and, therefore, increase the efforts to make them. If one expects wages soon to be bargained upward, the greater would be the advantage of discovering laborsaving inventions today and putting them into effect.

Industrial research has been growing by leaps and bounds. This growth, however, has been mainly brought about by other conditions than the rise of unions. Consequently, one cannot easily identify the influence of unions upon research. One often finds a very conspicuous response of managerial practices to collective bargaining at the time when it is first introduced into a plant. The men's clothing industry furnishes many examples. Managements know that they are confronted with a more or less difficult problem of controlling labor costs, and they begin to devote a larger part of their time and attention to these matters. To some extent greater attention to labor costs may occur at the expense of other aspects of the business, but in the main it represents a general improvement in the quality of management. Do these initial effects of collective bargaining persist indefinitely or do they quickly peter out? Are managements in the railroad industry, the printing industry, or the clothing industry, which have been unionized for many years, conspicuously more alert, thorough, and farsighted than managements which do not operate under union pressure? The answer to this question seems to be "No."

Despite the absence of conspicuous differences between managements in union plants and managements in nonunion plants, it is difficult to reach the conclusion that union pressure on wages has no effect. The very fact that wage rates tend to be high in industries in which labor costs are a small proportion of sales suggests that the level of labor costs affects the attention which managements give to them. Furthermore, it should be noted that technological changes are often made outside the industries which use the changes: locomotives are developed by locomotive builders, not by railroads; printing presses by printing press manufacturers, not by printers; coal cutting machines by machine builders, not by coal operators. If labor costs in an industry are expected to rise, the equipment builders for the industry have an incentive to increase their efforts to develop laborsaving apparatus.

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tentative conclusion. His investigation is the first attempt of which I am aware to obtain evidence of the effect of union bargaining pressures upon technological change by investigating specific situations and, in particular, the aftermath of specific wage changes.

Do unions retard the introduction of technological discoveries? If the coal miners keep the differential on coal cutting machines and hand mining small, the installation of coal cutting machines is presumably retarded—although the improvement of coal cutting machines is probably stimulated. When the locomotive firemen require an extra man on Diesel switch locomotives, the use of such locomotives may be limited, though this limitation may not be important until Diesels have been used in the situations where they can be most advantageously employed. The regulation of the size of crews on printing presses may diminish slightly the use of new presses designed to require smaller crews. Nevertheless, cases of this kind are scattered and are unimportant. Furthermore, savings in labor are only one of several considerations affecting the decision to adopt new machines and methods. One concludes that unions tend somewhat to retard the introduction of technological changes, but that their influence is not great.

Little is known of the process by which some industries slowly become tradition-bound and lose much of their capacity to adapt themselves to changing conditions. Until the aging of industries is better understood, one cannot satisfactorily discuss whether collective bargaining tends to retard or accelerate the process. Have the wage system, the seniority system, the full-crew laws on American railroads and the enforcement of sharp distinctions between road service and yard service materially affected the opportunities of managements to experiment with new operating methods? Light on how and why industries become tradition-bound, what role, if any, unions play in aiding or retarding the process might be gained by study of the Lancashire cotton textile industry which seems to be an extreme example.[10]

V

Collective bargaining may be expected to affect the behavior of wages as well as the structure of wages and through its influence upon wage movements to affect the volume of investment. Let us analyze briefly the effect of collective bargaining upon (1) the rewards of innovation; (2) the cost of expanion; (3) response of the supply price of labor to shifts in demand. This analysis will be followed by a brief inquiry into the effects of collective bargaining upon cyclical adjustments.

1. *The effect of collective bargaining upon the rewards of innovation.* A certain amount of imperfection in markets seems to be needed in order to provide a reward for innovation, experimentation, and discovery. The amount of monopoly (or imperfection) needed depends upon the

[10] A report of the mission, headed by the Cotton Controller, Sir Frank Platt, states that the United States cotton textile industry "is very far ahead of the Lancashire industry in production per man-hour." The mission found that with normal staffing British output per man-hour was less than American by 18 to 49% in spinning, 80 to 85% in winding, and 56 to 67% in weaving. *The Economist*, Oct. 28, 1944, pp. 581-582.

propensity to save. The larger the disposition to save, the more protection is needed for innovators. The patent system reflects the view that the ordinary frictions and imperfections in markets do not give innovators sufficient protection against imitators.

Collective bargaining must be expected to reduce somewhat the rewards of innovation and discovery because it provides another way in which innovators may lose the gains from their discoveries. In the ordinary course of events, competition forces innovators to pass on their savings to consumers. Unions, through collective bargaining, may appropriate part of these gains before they are passed on.[11] The spread of collective bargaining may increase the importance of revising the patent system so as to give more adequate protection to innovators.

2. *The effect of collective bargaining upon the costs of expansion.* Collective bargaining may limit the employment opportunities offered in expanding industries by raising the wage level at which the new industries start.[12] It would do this directly if unions grow up quite early in the new industry. It would do it indirectly if employers set wages at a higher level than they otherwise would choose in order to discourage unionism. It would do it indirectly also if collective bargaining, through seniority rules and other conditions attractive to workmen, reduce the willingness of men to leave established industries for new industries.

No comprehensive surveys have been made to determine how collective bargaining has influenced wages in new industries. As a general rule, trade unions are slow in developing in such industries. Consequently, the direct effects of collective bargaining upon the expansion of new industries have probably been small. This situation may change. Up to now, however, the conclusion seems to be that any effect of collective bargaining upon the expansion of new industries has been indirect rather than direct. The history of collective bargaining is, of course, full of cases where investment opportunities have been created for individual nonunion concerns in unionized industries by a union scale which is above the rate at which new nonunion concerns can easily procure labor.[13]

3. *The effect of collective bargaining upon the response of the supply*

[11] If an innovator expects to be compelled to pass on part of his gains to labor before the rise of new competition forces him to pass on the gains to consumers, will he not set his original price higher than he would in the absence of collective bargaining? If it does, the net effect of collective bargaining in reducing gains of innovation may be quite small.

[12] Sometimes new enterprises grow up in areas of surplus labor supply and are able to start out at even below prevailing wages. New concerns may seek cities or regions in which an important industry is declining and in which surplus labor is available at less than prevailing rates. Examples can be easily found in some cities of New England and in the anthracite coal region. Other new enterprises, while paying more than local prevailing rates, may seek places where rates are low. The movement of industries into the South is an illustration. On the other hand, the automobile industry and the rubber industry grew up where it was necessary for them to pay above prevailing rates in order to attract labor.

[13] The attractiveness of the investment opportunities depends, of course, upon the

price of labor to shifts in the demand for labor. Collective bargaining may affect employment opportunities by making the supply price of labor more responsive to shifts in the demand for labor. Under free markets the reservation prices of labor are assumed to be independent of the demand for labor. This assumption seems to be essentially accurate. With widespread collective bargaining, however, it is likely no longer to be accurate. When the demand for labor rises, trade unions are likely to raise the reservation price of labor. They are likely to decide that the time has come to press for wage increases. Consequently, an economy in which labor is extensively organized may be one in which increases in demand produce price effects to a greater extent and employment effects to a less extent than an economy of free markets.

Is there evidence to support or refute these deductions concerning the possible effects of collective bargaining upon investment opportunities? The evidence is meager and unsatisfactory, and it relates in the main to the period when trade unions were, on the whole, quite weak and their membership only a small proportion of the entire labor force. For this period there is no evidence that unions promptly pushed up wages to appropriate part of the gains of discovery or to take advantage of the expansion in the demand for certain products. Douglas, in his study of the earnings of factory workers, finds that "pay roll" hourly earnings increased 3.27 times between 1890 and 1926, and that the hourly earnings of union workers in manufacturing increased 3.11 times. Pay roll hourly earnings represent industries in which there were both union and nonunion workers. The nonunion workers, however, greatly predominated. The comparison is a crude one because union wage rates do not represent the same occupations or industries as do the pay roll data. Furthermore, the union wage rates apply to more skilled workers than do the pay roll. Nevertheless, the data show that the hourly earnings of union and nonunion workers rose at approximately the same rate between 1890 and 1926.

Of particular interest and significance are the cyclical movements of union and nonunion wages. In periods of expansion, union wages rise less and later than do nonunion wages. In periods of contraction, union wages fall less and later than do nonunion.[14] The slow response of

probability that the new concern will remain nonunion or will soon have to pay union rates in order to remain nonunion.

[14] This conclusion is confirmed by the various scattered data. The studies of Douglas (*Real Wages in the United States, 1890-1925*, pp. 96 and 101) show the following comparisons between union and "pay roll" hourly earnings:

	Union	Pay roll
	Periods of Contraction	
1893-94	−1.5%	−7.3%
1907-08	−2.0	−5.9
1920-22	−1.4	−21.1

union wages to changes in demand is to be expected. It results from the fact that union wages are governed by trade agreements which run for a year or more. Wage changes can ordinarily not be negotiated until the agreement expires or at least not oftener than once a year. If it turns out to be true that union wages respond more slowly to increases in demand than do nonunion wages, the spread of collective bargaining would help innovators reap the fruits of their inventions and would give new industries a more favorable opportunity to expand.

VI

Collective bargaining tends to prevent selective and piecemeal decreases of wages in times of depression. This effect is less pronounced in industries where payment is by the piece than in industries where time payment prevails. How useful are wage reductions in maintaining employment? This is another matter which has not been carefully investigated. No one knows what types of firms cut wages in times of depression or what is the effect of wage reductions upon the production and financial policies of these firms or of their competitors. Among the cuts which would be particularly advantageous are reductions in the wages of workers who make products which are elastic in demand. There is no reason, however, to expect that wage cutting is or will be concentrated in that part of industry. Wage cuts probably develop first and spread most rapidly in industries where competition is keen. Furthermore, weakest firms probably make the first cuts and the largest cuts. Wage cuts probably help these firms remain in business. To this extent wage reductions limit the distress dumping of inventories and help to keep secondhand machinery off the market. They may also be

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Periods of Expansion		
1897-98	+20.0%	+31.8%
1908-13	+10.8	+20.6
1914-20	+101.8	+163.4
1922-26	+15.3	+10.2

Annual data are, of course, far less satisfactory for the above comparison than would be quarterly data. The union wage rates apply to more skilled workers than the pay roll data. The cyclical movement of the wages of skilled workers may well diverge from the cyclical movement of "unskilled" or "semiskilled" workers.

The hourly earnings of union workers and of all workers in the book and job printing industry moved as follows:

	Union	All Workers
1914-20	+88.0%	+110.1%
1920-22	+25.7	+1.1
1929-32	+1.4	−2.1
1933-39	+16.1	+21.4

Figures on union wages in the book and job printing industry from the U. S. Bureau of Labor Statistics, Bulletin No. 781, p. 3, and for all workers in the book and job printing industry from the National Industrial Conference Board, Study No. 229, "Wages, Hours, and Employment in the United States, 1914-1936," pp. 140-143; 1939 figures from *Economic Record*, Mar. 28, 1940, Vol. 2, No. 10, p. 129.

important in inducing banks to renew loans to some firms. In all of these respects wage cuts are likely to have favorable effects upon prices and the volume of spending. A few firms which make wage cuts may reduce the prices of their finished goods. A study of cases would probably show, however, that this usually does not happen. Rather, most of the firms which make wage cuts are probably having trouble in meeting competition at prevailing prices. Nor are firms which make wage cuts probably led to spend much of the saving upon new equipment. They may be led, however, to retain higher standards of maintenance and repair, which means more expenditures on certain types of labor and on repair parts, and they may spend their depreciation allowances more freely—which would mean some expenditures on replacements. To a considerable extent the savings of wage cuts are likely to be used to reduce accumulated debts. This may be important, however, (1) in preparing the foundations for ultimate revival and (2) in affecting the lending policies of banks. Business managements are likely to await correction of their financial condition to delay undertaking ambitious expenditures for expansion until they have reduced or funded short-term debts. There is general agreement that banks (and bank examiners) impose unduly strict credit standards in times of depression and refuse (or criticize) many good loans. Better experience on repayments would broaden the willingness of banks to extend credits. Since the spread of collective bargaining is virtually eliminating selective wage cuts as a method limiting the cumulative effects of contractions in spending, other methods, such as unemployment compensation, budget deficits, and more generous loan-carry overs in the tax laws, must be developed.

VII

The foregoing analysis shows that trade unions affect employment in many ways—some favorable, some unfavorable. Can they be held responsible for their effects upon employment? They can be expected to conform to such laws and such ethical rules as the community may seem fit to impose. Until the community outlaws by its ethical code or laws every action which is unfavorable to the general level of employment, trade unions cannot be expected to avoid certain types of behavior or certain types of policy simply because these policies are bad for employment or to pursue other policies simply because they are favorable to employment.

This point may be made plainer if put in terms of the behavior of individuals. A man might raise the general level of employment in the community by becoming an adventurer and starting a business of his own, rather than by getting on someone else's pay roll. No one would

assert, however, that he is under any obligation to become a business starter rather than a job holder. He is entitled to pursue his self-interest, regardless of the effect upon employment, so long as he observes the laws and the ethical rules of the community. Informal rules of right and wrong are often somewhat vague in their application, and some people are more scrupulous than others in not taking advantage of this vagueness. Nevertheless, it is a basic principle of our economy that people may pursue their interests within the framework of the law and the community's ethical rules.

Let us apply this to trade unions. They are entitled, along with business concerns and individuals, to pursue their self-interest. No union is large enough to be able to take account of the effect of its actions and policies upon the community as a whole. It may be smart for a large and powerful union, such as the miners' union, the automobile workers, or the teamsters, to avoid arousing the indignation of the public. If the community, however, wishes protection against activities by unions which injure employment, it must provide laws or ethical rules against these activities. So long as the community fails to do this, the unions must be expected to take advantage of the community's inaction.

The view which union members and union leaders take of policies will depend upon their knowledge of the probable results of policies. Consequently, better and more complete market research may lead many unions to modify their policies. The long-term elasticity of demand for labor is considerably greater than the short-term. Many unions, however, assume that the demand for labor is inelastic in the long run simply because it is inelastic in the short run. Each organization must, of course, decide for itself to what extend it will achieve present gains at the expense of future income. Many labor organizations (or their officials) may attach little importance to the long-run results of their policies. It is probably true, however, that wage policies of unions are usually based upon an underestimate of the long-term elasticity of the demand for labor. In this respect there is similarity between the wage policies of unions and the price policies of employers —although employers probably underestimate the long-term elasticity of demand less than do unions.

Although unions are not big enough to avoid in their own interest policies which may injure the general level of employment, they are big enough effectively to pursue many policies which will assist the employment of their members. Occasionally they incorporate in their wage scales incentives for employers to stabilize employment—particularly to reduce seasonal unemployment. The most notable instance of this is the employment guarantee plan which existed in the Cleveland women's garment industry from 1921 to 1931. It seems to have the

possibility of wide extension. The opportunity of the employer to recapture his contributions by giving employment gives managements a strong incentive to explore the possibility of stabilization. In Cleveland about 85 per cent of the contributions of employers were recaptured. One of the best opportunities for unions to increase the employment of their members exists in the building trades, where the unions could play a leading role in increasing the demand for housing. This demand depends in part upon prospective taxes on real estate and upon the existence of well-conceived city plans. Expectations of reductions in local taxes are of first importance in determining the availability of mortgage money. This is especially true in old communities where the tax rates have climbed to high levels. City plans are necessary to assure investors of definite developments in transportation, schools, parks, and other public utilities. Up to the moment the unions in the building trades have done very little to increase the demand for housing. Indeed, in many communities the local leaders of building trades unions are accustomed to co-operating with stupid and corrupt municipal machines which derive considerable support from corrupt and unimaginative contractors. The national unions in the building trades have it within their power to bring about a revolution in local policy.

VIII

The position of the labor movement as a whole is very different from that of the constituent unions. The labor movement as a whole is large enough to be concerned with the interests of all groups of workers. It is large enough to consider the effects of the policies of any union upon the general level of employment and upon the general level of pay rolls in the country. In other words, the labor movement as a whole can afford to be interested in the total amount of employment and in the total size of pay rolls. It presumably has the responsibility of protecting the interests of all workers against the excessive claims of any particular group. If a union pursues policies which limit total employment and which limit pay rolls, the over-all organizations of labor (the American Federation of Labor and the Congress of Industrial Organizations) can afford to oppose such policies. If the building trades unions, for example, were to diminish employment by reducing one of the most important outlets for saving, the over-all organizations of labor would be appropriate bodies to protect the interests of the rest of labor against the policies of the building trades unions.

The labor movement in the United States is not yet well prepared to act where the interests of particular groups of workers conflict with the interests of the rest of labor. The same is true of the labor movement in Great Britain. The tradition of the labor movement in this

country is one of autonomy. Indeed, the American Federation of Labor was founded, not to dominate its constituent unions, but to help them preserve their independence. Each national union in the United States makes its own policies quite independently of the American Federation of Labor or the Congress of Industrial Organizations. Neither federation would venture to oppose or criticize the wage policy of a national union, no matter how that policy might affect the rest of labor. Nor would either federation ordinarily think of opposing other policies of member unions, such as policies toward technological change. There is no immediate prospect of a shift in the centers of authority within the labor movement. Indeed, the men who compose the executive councils of each federation are the heads of powerful national unions who are interested, above everything else, in the problems of their own unions.[15]

All of this does not mean that the federations may not become effective representatives for labor as a whole on matters where there are no clashes between important groups and the rest of labor. Tax policy is an example. The labor movement has grown strong because it has had the opportunity to bargain over a rapidly expanding national product. Its rise is a part of the great burst of enterprise which characterized the nineteenth century and the early part of the twentieth century. The labor movement is simply one facet of this great expansion. Consequently, the trade unions have a strong interest in keeping the supply of enterprise in the community large and the spirit of enterprise vigorous. The tax system has gradually developed until it threatens to prevent an adequate supply of enterprise by placing drastic penalties upon any one who presumes to make a living by putting men and capital to work.

There will always be important problems with respect to which the labor movement and business have common interests. The scope of the common interests of labor and business and the ways of implementing them can best be determined by discussions between representatives of the two groups. Political processes, valuable as they are, tend to exaggerate areas of conflict and also the importance of conflicts. Furthermore, political processes increase the difficulties of broadening areas of agreement. Consequently, both the labor movement and business would serve themselves and also the community by establishing permanent arrangements for regularly exploring their mutual interests. Recommendations in the field of public policy made jointly by the A.F. of L.,

[15] The labor movement in the United States may never acquire a national point of view comparable to that which exists in the Swedish labor movement. In the field of government centuries were required for the transfer of authority from the nobles to the national governments, and the transfer was brought about only by severe struggles. If the transfer gradually occurs within the labor movement, it will not be as a result of struggle. Indeed, contests between the federations and the national unions would only impede the development of a national point of view in the labor movement.

the C.I.O., and the United States Chamber of Commerce, and possibly other organizations would, of course, carry great weight. Of great importance is the fact that each of the several organizations is large enough to share the concern of the entire community with the general level of employment and the size of national pay rolls.

IX

Does the spread of collective bargaining require that the community develop and enforce a national wage policy? Is it not inevitable that the country will have an employment policy—a policy designed to facilitate the maintenance of a high level of employment? If the country has an employment policy, will it also require a wage policy? In the absence of a national wage policy will the structure of wages fixed by bargains in different industries and plants inevitably produce a large amount of "wage-distortion" unemployment? Must the community take responsibility for seeing that increases in the demand for labor do not raise the supply price for labor rather than produce increases in employment?

The logic of collective bargaining seems to indicate a national wage policy. It would be a fortunate circumstance, however, if the country, in times of peace, could escape the necessity of formulating and enforcing a national wage policy. The traditions of the country are strongly against recommendations of conduct in this field, and a national wage policy would not be easily enforced. Furthermore, there is danger that an attempt to formulate a truly national wage policy would fail—that the making of the policy would be taken over by this, that, or the other special interest with results roughly comparable to those produced by tariff making. If the labor movement and business can work together effectively for national policies which encourage enterprise, as I have suggested in the previous section, the necessity of a national wage policy may be avoided. Vigorous enterprise would not avert all unemployment—in particular, it would not prevent the types of unemployment which are not sensitive to changes in the volume of spending, such as wage-distortion unemployment and other types of structural unemployment. It would, however, keep unemployment low enough to prevent an imperative demand that the employment policy of the country be supplemented by a national wage policy.

THE PUBLIC INTEREST IN THE TERMS OF COLLECTIVE BARGAINS

By Robert M. C. Littler
Littler, Coakley and Lauritzen

That the public has an interest in the terms of labor contracts has been demonstrated, during these last two decades, by a progressive expansion of statutory control. A wide variety of terms has been legally imposed upon the employment relation. So far as the employer is concerned, the voluntary element of contractual adhesion has been reduced to a minimum. As the area of positive law has expanded, the area of voluntary determination has contracted.

Concomitant with this compression, by positive law, of the scope of free choice and flexibility, there has also evolved a sort of common law of rights and restrictions from the customs and from the established practices of the parties themselves. Professor Slichter has pointed out that the spread of collective bargaining has given sanction to a whole scheme of interdictions which he calls the new "industrial jurisprudence."[1] Some of this ***corpus juris*** is formally integrated in collective contracts. Some is to be found in the rules of labor unions. Much of it is a matter of informal arrangement or custom. A small part arises from employer policy. Nevertheless the controlling restrictions are all a part of the labor bargain.[2] Whenever a collective agreement is consummated, or a worker is employed, the bargain includes not only the formal terms of hire but also the surrounding substantive restrictions without which the collective contract would not have been consummated or the employment relation established.

Whether the substance of this new industrial jurisprudence coincides with the public interest has been frequently questioned. Whether the present over-all result of both legislative restraint and collective bargaining restriction will permit sufficient freedom and flexibility for the continuing development of a private enterprise economy has been the subject of much debate. There are certain similarities between the evolution of this industrial jurisprudence and the early development of the Law Merchant. That, too, was first a matter of custom and agreement even as is the industrial jurisprudence. That, too, was initially administered by private courts and then separate public tribunals even

[1] Sumner H. Slichter, ***Union Policies and Industrial Management*** (Washington, D.C.: Brookings Institution, 1941), p. 1.

[2] The term "bargain" is used here in the sense that it is used by Williston. See, 1 Williston on Contracts (2nd ed.) 6; and Restatement, Contracts, Sec. 512. As so used, the word is neutral. It includes that which is illegal and that which is legal; it includes the penumbra of informal conditions and arrangements as well as the formal terms integrated in a written instrument.

as these industrial controls are applied by private arbitration and particular public boards. Eventually the Law Merchant was molded into the common law of England by Lord Mansfield, and it has become the foundation of our commercial law of today.[3] It may seem inconceivable to some that this industrial jurisprudence should ever become a part of American public law; so also would it have been said of the *Lex Mercatoria* in sixteenth century England.

Not the least among the dangers of this *corpus* of restraints and restrictions is that it is developing industry by industry and upon a syndicalist basis. Rights tend to become synonymous with the effective purposes of the strongest groups. There will be inescapable conflict between the effects of this industrial particularism and public interest in the social order.[4]

This phrase, "the public interest," is subject to at least two uses. The first is, what the public interest should be. The second is, what the public considers its interest to be.[5] In practical affairs the second is probably more important than the first. With some assurance it may be assumed that the people do not desire any essential change of the American economy in the postwar world. If this be true, then the public interest might be broadly defined as follows: (1) the productivity theory of wages should be generally accepted; (2) technological improvements should be encouraged to the end that there should be increased output at lower unit price; (3) for those workers who are displaced by technological change, or who are not necessary at any given level of production, the primary burden of support should not be a direct charge upon industry;[6] (4) in the domestic economy at least,

[3] Wyndham A. Bewes, *Romance of the Law Merchant* (London: Sweet and Maxwell, Ltd., 1923); 5 Holdsworth, *History of English Law* (2nd ed., 1937) 130 and 8 Holdsworth, *op. cit.*, 113; Sanborn, "Law Merchant," *Encyc. Soc. Sciences* 9:270; Ralph W. Aigler, "Commercial Instruments, the Law Merchant and Negotiability" 8 *Minn. L. Rev.* 361 (1924).

[4] John Dickinson, "New Conceptions of Contract in Labor Relations" 43 *Colum. L. Rev.* 688 (1943); Henry C. Simons, "Some Reflections on Syndicalism," *Journal of Political Economy*, 1944; Carroll R. Daugherty, "Postwar Labor Problems, Union Policies and Leadership in Postwar America," *American Economic Review*, Mar., 1944, at p. 176; and John T. Dunlop, *Wage Determination Under Trade Unions* (New York: Macmillan Co., 1944), p. 7. See also Louis L. Jaffe, "Law Making by Private Groups," 51 *Harv. L. Rev.* 201 (1937).

[5] Full well do I recognize the hazards of hasty generalization as to the state of mind of what Mr. Walter Lippmann would call "the phantom public." But in such a discussion as this, some assumptions must be made on the subject. I have tried to make them and state them with some objectivity; for I am by no means certain that I would adopt them as stated if I were entrusted, by an omnipotent Providence, with the task of recreating the world as I would have it be.

[6] This assumes that the general problem of maintenance for the unemployed—whether by reason of technological change or economic maladjustment—is primarily a public problem and that industry should not be expected to bear the cost of sustaining workers who do not produce for the industry. A contrary assumption would require a complete revision of all currently accepted economic concepts.

the cartel system is not desirable and the original Sherman Act principles against restraint of trade are to be pursued; (5) collective bargaining should be encouraged; but (6) management should retain its functions not materially restricted.

These precepts are debatable. Some are under attack. Yet they seem to be accepted criteria of public approval. To what extent, then, does the *corpus* of this new industrial jurisprudence violate these canons of public interest?

As a device of logical convenience, the restrictions most obviously contrary to public advantage can be segregated into two general categories. The first are those within the generally accepted area of collective bargaining. These are the "make work" rules.[7] Behind them is an unavowed theory of a work fund, not essentially dissimilar to the old theory of the wages fund. Many of them are obvious and formal. Most of them are hidden under other contractual purposes such as wage schemes and safety provisions. The effect of all of them is difficult to perceive by anyone not intimately familiar with the particular industry. Their nature and effect is therefore to be discovered by the general student chiefly from the findings of experts who have studied the enterprises affected. Specific cases usually overlap any scheme of classification.

The second category of uneconomic restriction is that outside the customary scope of commonly accepted subjects of collective bargaining. Most of these are restraints upon trade. They are designed to limit the general market. A brief scrutiny of typical examples must suffice if the general subject is to be kept within workable proportions.

Of the general category of work fund rules, five common types can be identified.[8]

1. There are restrictions on technological improvements in processes

[7] Parallel to this category of restraints are two other types which are not here discussed, principally because of the necessities of time and space. There are restrictions upon entrance into the trade which involve consequences far beyond the scope of this paper. There are provisions designed to obtain or retain certain types of work for a particular union which arise from what are commonly called "jurisdictional disputes"; but these restrictions are largely the consequence of craft type of labor organization and may more appropriately be considered a part of the inescapable problem of the governance of trade unions.

[8] By far the best analysis of the extent and effect of these work fund rules is to be found in Slichter, *op. cit.* Another valuable source of reliable information is the collection of essays on fifteen industries in *How Collective Bargaining Works* prepared under the direction of Harry A. Millis (New York: Twentieth Century Fund, 1942). Except as otherwise noted, I have principally relied upon these two sources. The Antitrust Division of the Department of Justice has collected a large volume of facts on the entire subject and various of its executives have spoken and written in many places. See particularly, Thurman Arnold, "Labor Against Itself," *Cosmopolitan* (Nov., 1943), p. 28 (digested in *Reader's Digest*, Jan., 1944), p. 37; "Labor's Hidden Hold-Up Men," *Reader's Digest*, June, 1941, p. 136; Dept. Justice, "The Anti-Trust Laws and Labor" (Washington, D.C., mimeo. material, Jan. 27, 1940).

and machinery. Characteristic instances reasonably verified are: prohibitions against the use of cement mixing trucks in Chicago;[9] interdictions against the use of the paint spray gun and even of wide paint brushes in most cities;[10] prevention of the delivery of mortar in bulk in New York; and restrictions upon the use of efficient transportation by plumbers to and from the job. Teamsters in Chicago were able to compel enterprises to use coal instead of gas.[11] Opposition of the Musicians' Union to the use of transcribed music has been partially successful.[12] Examples could be extended indefinitely. It is sufficient to identify the type and to show that the occurrence is frequent.

2. There are restriction upon the use of prefabricated products.[13] In the building trades this seems to be the rule, not the exception.[14] There have existed requirements of performing a great deal of work on the job instead of in the shop: the cutting, measuring and threading of pipe in New York, Chicago, Houston, and probably other cities as well; the bending of steel for concrete reinforcement in New York; the cutting of electrical wire and piping in Washington, D.C., Peoria, Illinois, and Racine, Wisconsin, and doubtless in other areas. The installation of preassembled bathroom fixtures has been prevented at least in the New York and the San Francisco areas. In New York, Pittsburgh, and Oklahoma City rules have existed against the use of wall board and hollow tile. The federal government itself was prevented from accepting the bid of the Currier Lumber Company to erect prefabricated housing in 1941.[15]

3. There are rules requiring the performance of unnecessary work. Thus in New York, electrical equipment manufactured outside the city must "if at all feasible" be knocked down and reassembled before it is installed. Even switchboards manufactured in the city under closed shop agreements must be disassembled and reassembled on the job.[16]

[9] *U. S.* v. *Carrozzo* (*D.C., N.D., Ill.*, 1941) 37 Fed. Supp. 191, affirmed, *U. S.* v. *International Hod Carriers' and Common Laborers' District Council*, etc. (1941) 313 U.S. 539, 61 S. Ct. 839, 85 L. Ed. 1508, 8 LRR Man. 459.

[10] There has been considerable litigation over this restriction. Among other cases see *Harper* v. *Hoercherl* (Fla. Supr. Ct., 1943) 14 So. (2d) 179, 12 LRR 697, reversing *Hoercherl* v. *Harper* 11 LRR 267.

[11] Joel Seidman, *Union Rights and Union Duties* (New York: Harcourt, Brace and Co., 1943), p. 178.

[12] See *Opera-on-tour* v. *Weber* 285 N.Y. 348, 34 N.E. (2d), 136 ALR 267, 8 LRR Man. 1099 (1941).

[13] Some of the examples of this paragraph are from Corwin D. Edwards, "Trade Unions and the Law," *American Economic Review*, Mar. sup., 1943, p. 441; see also Thurman Arnold, *op. cit.*

[14] William Haber, *op. cit.;* "The Trouble with Building Is . . . ," *Fortune*, June, 1938, p. 46; *Architectural Forum*, Oct., 1939, p. 51. The C.I.O. policy is to the contrary; see, *Memoranda* (Office of Emergency Management, Oct. 14, 1940, Jan. 23, 1941 and Apr. 15, 1941).

[15] 9 LRR 162, 205, 226, 254.

[16] *Allen Bradley Company* v. *Local Union No. 3* (C.C.A. 2d., 1944) 215 LRR 214.

In the printing trades it is forbidden to exchange certain typeset matter or matrices between local print shops unless the material is again composed, proof read and corrected, within a specified time, by employees of the newspaper receiving it.

4. Almost indistinguishable from this type of rule is the common requirement of the hiring of unnecessary men. While the effects of the "full crew" laws and contractual terms have been debated with respect to the railroads, there is little doubt that waste is the general result. Teamsters in New York have exacted the hiring of an extra "pilot driver" on over-the-road trucks at the city boundary.[17] In New York and Chicago, milk wagon drivers have interfered with store sale of milk. In nearly every city, amateur musicians may not play in public unless an equal number of union members are hired or paid; and the local unions determine a minimum quota of musicians for each public entertainment where even a single bar of music is played. In Chicago it is required that professional musicians be hired to put on and take off records played over any public loudspeaker.[18] At least in New York, temporary lighting must be in charge of a full time electrician, even though all he does is turn a switch twice a day. In a majority of its agreements the Pressmen's Union has a clause establishing minimum crew requirements which vary from place to place somewhat in ratio to the bargaining power of the union. It is a matter of common repute there have been costly manning rules in the theater.

5. The most common of all restrictive rules are those which place limitations upon employee output. These are by no means limited to industries subject to collective bargaining. Indeed, formal limits are quite uncommon in collective agreements. Usually they are not discernible to the casual observer. The effect is often created by the method of wage payment, by the determination of standard performance, or under provisions for the protection of the health and safety of the workers. Many are matters of craft tradition or informal group pressure aimed at making or spreading work.

Somewhat apart from these types of the work fund category of make work rules and still not partaking of the second category of devices for restraint of trade, there is an intermediate method of economic exaction which has been much in the public eye in recent months. This consists in the requirement of payments to the union unrelated to any services rendered at all. Last November the Musicians' Union succeeded in compelling the major recording and broadcasting companies to agree to make large payments to the Union treasury for the privilege of using the

[17] *U.S.* v. *Local 807* (1942) 315 U.S. 521, 62 S. Ct. 642, 86 L. Ed. 1004, 10 LRR Man. 386.

[18] *New York Times*, Nov. 26, 1944, p. 48, c. 1.

transcribed music for the recording of which union musicians, doubtless many of them unnecessary, had been fully paid at the standard union scale.

To the Musicians' Union the method was not new; there have been other precedents. Most abusive is the rule prevalent in many cities that when "stand by" musicians are required no actual musicians can be hired, but instead the sum of their wages must be paid to the union. The same practice is said to have been followed by the New York Teamsters in connection with the requirement of "pilot drivers."

With respect to the second general category of restriction which are designed to control the product market by monopolistic devices, there appears to be a fairly recognizable pattern. Not all methods are pursued in each bargain. Sometimes the arrangements are informal and successfully concealed. Four standard types have been verified to be frequent occurrence.[19]

1. Some bargains fix prices directly. Two thirds of the contracts of the Barbers' Union have such provisions. Other examples have been found in agreements covering beauty shop operation, wholesale bread delivery, milk distribution, and sometimes in the construction industry. The Photo-Engravers' Union has at times bound the employers not to fix a price at less than cost as defined in the agreement.

2. Closely allied to price determination is the device of the bid depository which is often coupled with price formulae. Among the more public instances of this practice are agreements in the New York and San Francisco electrical contracting industry,[20] the Portland plastering subcontracters, the Seattle cement industry, and the New York painting industry. Similar practices have generally prevailed throughout the country in the plumbing and tile contracting industries. Bid depositories have been set up in many cities by the job printing industry with the unions to perform constabulary duty.

3. There are rules and practices restricting the number of competing employers and preventing the inauguration of new enterprises. These have been found quite generally in the plumbing and tile contracting industries. They have been verified in heating, woodworking, and in the fur industry in the east; in milk distribution in New York, Chicago, and Seattle; and in poultry distribution in New York. On December 5, 1944, the association of service station owners of Minneapolis announced that it has reorganized itself as a local of the Teamsters' Union for

[19] Sources of many of the following examples are: John T. Dunlop, *Wage Determination Under Trade Unions* (New York: Macmillan Co., 1944), p. 104 et seq.; the various essays in Haber, *op. cit.;* Arnold, *op. cit.;* Edwards, *op. cit.*

[20] *Allen Bradley Co.* v. *Local Union No. 3, op. cit.* and *U.S.* v. *San Francisco Electrical Contracting Association* (*D.C., N.D., Calif.,* 1944) 15 LRR 154.

the avowed purpose of restricting the number of service stations after the war and to fix prices of the products sold.[21]

4. The most drastic type of trade restraint is that which seeks to erect a wall around a local industry.[22] Many examples are in the books. Two will suffice. In the electrical construction industry in New York it has been the rule that the union would install no fixtures or equipment manufactured outside New York City if such fixtures and equipment could be manufactured in New York City. In San Francisco during 1936 a group of unions and a group of manufacturers entered into a written agreement to shut out from the area all millwork and patterned lumber produced outside the area. Eighty per cent had previously come from outside the state, chiefly from Oregon and Washington. It is quite probable that most of such bargains never come to light. Few parties are so naïve or so bold as to incorporate them into written documents or so to administer informal understandings as to invite public attention.

Of such, then, are the different types of work fund rules and of restrictions upon trade which have already been found to exist in collective bargaining practices. To what extent does the public interest suffer from the impact of these portions of the new industrial jurisprudence? Is the danger sufficient to justify an attempt at public control by legislation? With respect to the building trades, William Haber has found that it is not possible to measure the full effect of make work restrictions but that they "overstep the bounds of desirable regulation and . . . obstruct the progress of the industry."[23] *The New Republic* editorially declared that "they are preventing the use of some important inventions."[24] The monopolistic bargain, declared Mr. Haber, is a "difficult problem in the industry."[25] In its recent decision involving the New York electrical industry, although the Second Circuit Court felt compelled under the law to deny the injunction requested, the court did point out that it was aware of the "disturbing consequences" of the restrictions found by the lower court, which "bear with unusual weight upon the consuming public."[26] Sometimes it is possible to measure the precise injury. Inability of the federal government to accept the bid of the Currier Lumber Company to furnish prefabricated housing cost the people exactly $413,000. Several foreign representatives at the

[21] *San Francisco News*, Dec. 5, 1944, p. 8, c. 1.
[22] *Allen Bradley Company* v. *Local Union No. 3*, supra, and *Lumber Products Association* v. *U.S.* (C.C.A. 9th, 1944) 144 Fed. (2nd) 546, 15 LRR 42.
[23] Haber, *op. cit.*, p. 217.
[24] *New Republic*, July 20, 1942, p. 69.
[25] Haber, *op. cit.*, p. 224.
[26] *Allen Bradley Company* v. *Local Union No. 3*, supra.

New York fair submitted a joint statement to their governments[27] explaining that an unanticipated increase of ten million dollars in the cost of building and equipping foreign pavilions was caused by the necessity of hiring totally unnecessary labor.[28] The business agent of Local 3 of Electrical Workers defended the practices of his union with the explanation that fair exhibitors were treated the same as downtown contractors.[29] Without doubt he was correct. The Department of Justice has accumulated considerable information on the subject. Before the war, according to the Department, it cost one thousand dollars more to build a six room house in Cleveland than in nearby cities where conditions were the same except for the restrictive rules in Cleveland.[30] "Restrictive labor practices," said Corwin D. Edwards before this Association three years ago, "are among the most conspicuous causes of waste in building."[31]

In the entertainment industry, the cost of the recent bargain exacted from major recording and broadcasting companies is estimated by the head of the Musicians' Union to be four million dollars a year.[32] What is the cost of the imaginary standby musicians throughout the nation it is impossible to guess. Then there is also to be recalled the necessity of hiring unnecessary supernumeraries at nearly every professional public entertainment. Some of the restrictive policies of the Musicians' Union constitute "a great impairment to radio broadcasting throughout the country," according to the estimate of ex-chairman Fly of the Federal Communications Commission.[33]

Among daily newspapers, Robert K. Burns has found that the enforcement of work fund restrictions in many localities "has raised costs and prevented needed economies."[34] The same appears to be true of book and job printing.

Apparently there is no reliable appraisal of the consequences of work fund rules in the railroad industry. Joseph B. Eastman several times has spoken most conservatively of them as "unwise" and declared that they constitute a "general problem."[35] Reliable estimates of the

[27] Stanley High, "Labor in the World of Tomorrow," *American Mercury*, Nov., 1939, pp. 285-291.
[28] *New York Times*, June 15, 1935, p. 1, c. 4.
[29] Harry Van Arsdale, "The Case for the Union," *Atlantic Monthly*, May, 1940, p. 67; and see Charles Stevenson, "Labor Takes in the Fair," *ibid.*, 165:1, Jan., 1940, p. 1 and Stevenson, "The Case for the Public," *ibid.*, May, 1940, p. 678.
[30] Thurman Arnold, "Labors' Hidden Hold-Up Men," *Reader's Digest*, June, 1941, p. 136.
[31] Edwards, *op. cit.*, p. 440.
[32] *San Francisco Chronicle*, Nov. 12, 1944, p. 10, c. 1.
[33] *Time*, Aug. 3, 1942, p. 52.
[34] Haber, *op. cit.*, p. 102.
[35] U.S. Congress, House, " 'Featherbed Rules,' Railroad Manpower, and the T. P. & W."; Statement by Joseph B. Eastman before the House Military Affairs Committee, May 7, 1943 (Washington, D.C.: Government Printing Office, 1943).

cost of the "full crew" requirements in normal operations run to several million dollars a year.[36]

On an over-all basis, in 1941 the economists of the Antitrust Division estimated that "labor restrictions on production, which have nothing to do with wages, hours, or conditions of labor, are today costing the American consumer over one billion dollars a year."[37] The accuracy of such an estimate is open to question; but the error is probably on the conservative side. Any measurable cost is only part of the damage. Thus the findings of the lower court in the New York electrical case showed that one manufacturer, protected by the monopoly bargain, had one price list for New York City which was just double that of another price list maintained for the rest of the country.[38] Sumner H. Slichter, at the conclusion of the most thorough study of the general problem which has yet been published, concludes that make work rules are wasteful and a "dangerous expedient."[39] Edward T. Cheyfitz, national chairman of the Casting Division of C.I.O.'s Mine, Mill and Smelter Workers, recently wrote:

> . . . progress and high productivity will be synonymous in our postwar society. Apply this to labor's job and it resolves itself into a positive stand by labor for "no shackles on production". . . . Labor, of course, can refuse to follow this road of support of industrial efficiency. I believe this action would be disastrous for labor as well as the nation.[40]

Apparently this is the official C.I.O. policy.[41]

Thus it seems that the public interest is fairly clear and it is quite

[36] Slichter, *op. cit.*, p. 185. I know personally of one reliable estimate of the cost of railroad manning rules. Prior to 1941 the Southern Pacific, under brotherhood contract, and the Key System, under contract with the A.F.L. Amalgamated Association, operated competing and substantially parallel interurban lines from San Francisco, across the Bay Bridge and throughout the East Bay area. The Amalgamated Association has never made it a policy to demand artificial manning rules. Shortly before the abandonment of its franchise by the Southern Pacific, Key System estimated that under its own contract and manning practices it could operate the Southern Pacific lines with only 60% of the employees required of the S.P. When the Key System did take over the S.P. lines, routes were considerably changed, but subsequent experience has proved that the original estimate was correct.

[37] *Annual Report of the Attorney General of the United States* (1941), p. 61.

[38] *Allen Bradley Company* v. *Local Union No. 3*, supra.

[39] Slichter, *op. cit.*, p. 198. Similar apprehension has been expressed by Edwin G. Nourse, *Price Making in a Democracy* (Washington, D.C.: Brookings Institution, 1942), Ch. IX; Leo Cherne, *The Rest of Your Life* (New York: Doubleday, Doran and Co., 1944), p. 174; John T. Dunlop, *op. cit.*, pp. 7 and 120; Oswald Garrison Villard, "Why Unions Must be Regulated," *American Mercury*, June, 1944, p. 672; Joel Seidman, *op. cit.*, p. 71; Willard E. Atkins and Harold D. Lasswell, *Labor Attitudes and Labor Problems* (New York: Prentice-Hall, 1930), p. 347; Richard A. Lester, *Economics of Labor* (New York: Macmillan Co., 1941), p. 139; Warren D. Catlin, *The Labor Problem in the United States and Great Britain* (New York: Harper and Bros., 1943), p. 475; John Riegel, *Management, Labor and Technological Change* (Ann Arbor: University of Michigan Press, 1942), p. 168; and Carroll R. Daugherty, "Postwar Labor Problems, Union Policies and Leadership in Postwar America," *American Economic Review*, Mar. Sup., 1944, p. 176.

[40] "More for Less," *Fortune*, Dec., 1944, p. 131.

[41] *As We Win* (pamphlet published by the C.I.O., Jan., 1944), p. 12 and *Production Problems* (pamphlet published by Steelworkers Organizing Committee, now the United Steel Workers, Pittsburgh).

generally agreed that the common welfare has been invaded with disquieting frequency through the adoption of make work and restrictive trade practices. Nevertheless there has never been any general declaration of social policy on these subjects; and under the present state of the law it is not possible for the public generally, or any segment of the public with respect to its private interest, to protect itself against even the most outrageous manifestations of these uneconomic practices. The only concerted effort ever directed against these evils consisted of a campaign of prosecutions commenced in 1938 by the Antitrust Division of the Department of Justice. At that time, the prospects for success appeared to be good under then prevailing law; but by virtue of its decisions in the *Apex* case[42] and the *Hutchinson*[43] case the Supreme Court succeeded in reversing the trend of three decades of case law and for all practical purposes has read the Sherman Act almost completely out of the entire field of labor relations. The net result of which is that while it is unlawful for business to conspire to restrict production or restrain trade it is perfectly lawful for a union to do so; and until the Supreme Court speaks upon two cases now pending no one is sure but what it is possible for business to combine with unions and agree to restrictions which the employers could not lawfully accomplish alone.[44] It is true that most of the states have rules similar to the Sherman Act, either by statutory enactment or by virtue of common law; but state policy within the field has been notoriously ineffectual in the control of trade regulations proper and there is no reason to assume that it will be anywise successful in dealing with similar aspects of the problem within the field of collective bargaining. Under the rule of *Erie R. R. Co* v. *Tompkins*[45] it is not to be expected that there will develop any federal common law independent of that of the states; and state decisions with respect to make work rules are so conflicting and pursue such variant theories that no general relief is available in the forseeable future from the evolution of the common law.[46]

There is need for a statute. The general theory of collective bargaining makes two assumptions. The first is a comparative equality in bargaining power; the second is a sufficient conflict in interest between capital and labor so that no provisions will be generally adopted which

[42] *Apex Hosiery Co.* v. *Leader* (1940), 310 U.S. 469, 60 S. Ct. 982, 84 L. Ed. 1311, 128 A.L.R. 1044, 6 LRR Man. 647.

[43] *United States* v. *Hutchinson* (1941) 312 U.S. 219, 6 S. Ct. 463, 85 L. Ed. 788, 7 LRR Man. 267.

[44] Certiorari granted on Jan. 2, 1945 in the cases of *United Brotherhood of Carpenters, etc.* v. *U.S.* (reported in the C.C.A. as *Lumber Products Assn., Inc.* v. *U.S.*) and *Allen Bradley Co.* v. *Local Union No. 3*, etc., 13 L.W. 3265.

[45] (1938) 304 U.S. 64, 58 S. Ct. 817, 82 L. Ed. 1188, 114 A.L.R. 1487.

[46] 1 Teller, Labor Disputes and Collective Bargaining (1940) 262; and see authorities collected in Landis and Manoff, Cases on Labor Law (2nd ed. 1942), p. 430, and Handler, *Cases on Labor Law* (1944), p. 89.

are seriously injurious to the public interest. In this field, at least, both assumptions are wrong.

During the past decade the propensity of government toward intervention in the labor field has been dictated by the notion that the public should strengthen the position of labor in order to redress the balance between the parties which, it was assumed, had previously favored management. In large measure this was correct; but there is reason to apprehend that the government has overdone the job. Not only has the power of labor been strengthened but also the power of management has been sufficiently weakened that it is often not in a position to resist uneconomic demands. Management is compelled to make an agreement with the unions; the unions are not required to make an agreement with management. Management is compelled to bargain with the unions and for all practical purposes that means making concessions; labor is not required to make concessions and is not even required to bargain. Management may be punished merely for criticising the unions in an industrial dispute; yet so far has the doctrine of laissez faire been applied to union strategy that there is almost nothing which organized labor can do, short of outright violence, for which the union may be penalized in any way. Of course, the exigencies of war have modified these provisions; but this discussion is concerned with the arrangements for peace.

This disparity has been augmented by the lassitude of the employers. With singular lack of perspective the employers as a class have failed to organize among themselves and "bargain collectively" on the side of management. Almost never do employers take the offensive in collective bargaining and make demands upon the union. They are content to execute a strategic retreat. And in actual day-by-day trading with the unions, management is far more inclined to give way on a demand for a work rule than on a wage increase. Ordinarily the sales resistance to restrictive rules is comparatively low. Wages can be computed easily; often the consequences of a restriction cannot; so the average employer, even when his interest is against the restraint, will concede the rule in return for the wage.

Far more important, however, is the obvious fact that in most cases there is no conflict between management and labor with respect to these practices which injure the public interest. Even a casual examination of the subject at once discloses that in many instances management and labor are seeking their joint advantage at the expense of the public. In some instances management has the primary interest in the restriction, and there are countless examples in which management has the sole interest and has merely struck a bargain whereby the union agrees to do the unpopular constabulary duty of enforcement. To measure and

assess the blame for the development of these work fund rules and trade restrictions will serve no useful present purpose. It is more relevant to seek a remedy.

There are some who believe that there is none; but many of the students who have investigated the subject have come to the conclusion that it is possible by statutory enactment in some degree to protect the public from the more serious and obvious consequences of these uneconomic restrictions.[47] Most of the writers leave the subject at this point. While there has been a great deal of denunciation of the restraints complained of there has been almost no attempt to contrive a method by which they are to be prevented. To describe is easy; to prescribe is difficult.

Whether the first experiments in such legislation should be by the states or by the federal government is an open question. This is a new and ambitious project. It was Lord Bryce who pointed out that one of the advantages of the federal form of government is that new policies could be tested by the states on a small scale before embarking upon any national commitment. The question will actually be decided by political and not theoretical considerations. Discussion can appropriately be upon a national basis, for the nation is the greatest common denominator. State or national, the problem of statutory architecture is not essentially different.

In the English Parliament there has long been a custom—and in the *Reichstag* under the Empire and the Weimar Republic there was a custom—to pave the way for important statutory acts by the introduction of resolutions stating their provisions generally and in a form suitable for debate. Accordingly, the following principles are suggested for consideration. They are tentative, not final. They are an outline; much detail must be filled in before a workable statute is conceived. It will be obvious that they are designed to strike only at the more obvious and controllable abuses. These principles are:

1. The law should define the area which is the proper subject of collective bargaining; it should prohibit all bargains which extend beyond the area as defined.

2. It should define the proper area of collective bargaining as that

[47] Daugherty, *op. cit.*, p. 176; Riegel, *op. cit.*, p. 168; C. O. Gregory, "Some Problems of Policy in Collective Bargaining Practices," *American Economic Review*, Mar. sup., 1943, p. 183, and "Union Peacetime Restraints in Collective Bargaining," 10 *Univ. Chi. L. Rev.* 177 (1942); Ludwig Teller, "Federal Intervention in Labor Disputes and Collective Bargaining," 40 *Mich. L. Rev.* 48 (1941); and "Focal Problems in American Labor," 28 *Va. L. Rev.* 725 (1942); Frank E. Cooper, "What Changes in Federal Legislation and Administration are Desirable in the Field of Labor Law," 28 *Am. Bar Asso. Jour.* 385 (Ross Prize Essay of the American Bar Association, 1942); and see Notes: 41 *Colum. L. Rev.* 529; 49 *Yale L. J.* 518, 535-537; 35 *Ill. L. Rev.* 424, 444; and 9 *Geo. Wash. L. Rev.* 948.

which includes hours, wages, and conditions of labor—that which directly bears upon the employment and collective bargaining relationship—and none other.

3. Unions should be charged with the duty to negotiate upon all subjects within the allowable area of the collective bargain just as the employers are now required so to do under the National Labor Relations Act.

4. Any purpose outside the allowable area of collective bargaining should be made an improper objective of concerted action or economic pressure by employers or by workers.

5. There should be a clear statement of the public interest and public policy with respect to all types of restrictive rules here outlined.[48]

6. Enforcement of the statute should be delegated not to the courts but to an administrative agency.[49] It would not be gainful to try to speculate in detail upon what particular agency should be assigned this responsibility. If the War Labor Board survives in some form it might be the proper repository of such a power although the tripartite character of the Board has developed stresses and strains which are very disquieting. Or the duties here contemplated might be combined with those of the National Labor Relations Board.[50] Or if the whole of the labor activities of government should be concentrated in the Department of Labor this enforcement duty might possibly be centered there. There is room for freedom of choice.

7. It should be required that as a condition precedent to becoming effectual, every collective bargaining agreement must be formally filed with the enforcement agency.

8. With respect to those types of restrictive rules which are not to be subjected to specific prohibition, the agency should be required to investigate and regularly make public report upon their nature and consequences.

9. Practices and provisions which contravene specific prohibitions should be reached by "cease and desist" orders following positive administrative prosecutions similar in form and procedure to those now utilized by the Federal Trade Commission and the National Labor Relations Board.[51]

10. The statute should be either an independent act or its provisions should be interrelated with some general code of labor relations law.

[48] See Ernst Freund, *Legislative Regulation* (New York: Commonwealth Fund, 1932), p. 191.

[49] See Chester Lloyd Jones, *Statute Law Making* (Boston: F. W. Faxon Co., 1923), p. 238; and 1 Sutherland on Statutes (2nd ed. by Horack, 1943) p. 370.

[50] D. O. Bowman, *Public Control of Labor Relations* (New York: Macmillan Co., 1942), p. 471.

[51] See 2 Sutherland on Statutes 375.

From this brief statement of principles it is quite obvious that the efficacy, the fairness, and the acceptability of such a bill will depend in great measure upon the precision with which the boundary is drawn between what is and what is not the allowable area of collective bargaining. It would be less than candid to minimize the skill required in the proper performance of that task. Many years ago John Austin wrote:

> I will venture to affirm that what is called the technical part of legislation is incomparably more difficult than what may be styled as the ethical part. In other words, it is far easier to conceive justly what would be a useful law, than to so construct the same that it may accomplish the design of the law giver.[52]

In the minds of most men who are concerned with industrial relations there exists a fairly clear concept of what are the proper subjects of agreement between management and labor. The problem is simply to reduce that concept to legislative English. There can be no doubt that hours, wages, and conditions of labor are the accepted purposes of labor negotiations. Generally speaking, the transactions of the employer which precede the performance of work by his employees and those which follow the completion of that work are not the business of the employment or the union relation. To exclude them from the scope of collective bargaining would almost automatically proscribe those collective bargains which restrain trade and attempt to control the general market.

Some specific exceptions may be desirable under the present state of public thought on the subject. It is true that the design of the prohibition now suggested would substantially outlaw the boycott as a weapon of industrial conflict; and the right of boycott is a cherished dogma of labor theology. Upon what occasions and to what extent boycotts should be permitted by law are questions of great import and far too extensive to be debated here. It is sufficient to say that whatever the right of boycott ought to be can and should be defined either in this statute or, more appropriately, in some independent code for the control of union conduct in industrial controversy.[53]

While the plan just proposed seeks to prohibit outright that category of restrictions which has been called "restraint of trade" rules, it contains no scheme for any parallel and specific statutory proscription of the interdictions which have been classified as the make work or work fund rules. This is deliberate. It is the result of seeming necessity. It has been pointed out that these work fund rules are important; they are of frequent occurrence; they are costly; they are contrary to the

[52] 2 Austin on Jurisprudence (4th ed. by Campbell, John Murray, London, 1873) 1136; 2 Sutherland on Statutes 384; John E. Mulder, "Some Obstacles to Effective Legislation," 31 *Ill. L. Rev.* 24 (1936).

[53] In "A Code of Union Conduct," *Harvard Business Review*, Vol. XX, p. 10, I undertook briefly to discuss this general problem.

public interest; but there does not appear to be any statutory method by which to describe those which are undesirable without at the same time prohibiting contractual provisions which are desirable and necessary features of the collective bargain. Any attempt to do so would bog down in sheer administrative unworkability.

It has been said that heretofore those investigators who view with alarm the tendency toward the adoption of all these types of restrictive rules have generally failed to make any specific legislative proposals by which to prevent them. To this there is one notable exception. In 1941 there were introduced into Congress two bills drafted and sponsored by the Department of Justice.[54] These contemplated an entirely different scheme of statutory control.[55] They were designed as extensions of the general Sherman Act policy against business practices of restraint of trade. It does appear, however, that the subject matter here considered has more in common with problems of labor relations than with the general policy against business practices of restraint of trade. Therefore any prohibitions to be adopted could more conveniently be located within the framework of the law of labor relations.

These two bills likewise provided for prohibitions of an entirely different sort. With respect to trade restrictions, the boundary suggested substantially followed that of the Sherman Act and presumably carried with it the judicial construction originally announced in 1911 in the Standard Oil case.[56] This was that only "unreasonable" restraints are prohibited. With respect to make work rules the bills adopted the same criterion. The proposal denounced "unreasonable" restrictions upon the use of material, machines, and equipment. This "rule of reason" has proved entirely uncertain and unsatisfactory in connection with the general purposes of the Sherman Act. Its chief vice is that it does not tell the citizens what they may do and may not do. This is what Professor Freund has called "the method of deferred control."[57] The legislative standard is meaningless. Actual rules would be established by the enforcement agency.

Not only is the standard of the Justice Department proposal too indefinite, the scope of the attempted regulation is too broad for practi-

[54] U.S. Congress, House, H.R. 5218, introduced by Representative Walter, June 30, 1941 (77th Cong. 1st Sess.); and U.S. Congress, House, H.R. 5259, introduced by Representative Monroney, July 9, 1941 (77th Cong. 1st Sess.).

[55] On the merits of these bills there was a debate before this Association at the meeting in December, 1941. *American Economic Review*, Mar. sup., 1942, pp. 432-459. Corwin D. Edwards presented the position of the Antitrust Division which has so often been repeated by Thurman Arnold and Wendell Berge. Edwin Witte advanced the orthodox labor arguments.

[56] *Standard Oil Co.* v. *U.S.* (1911) 221 U.S. 1, 31 S. Ct. 502, 55 L. Ed. 619; and see 5 Williston on Contracts (2nd ed.) 4666.

[57] Freund, *op. cit.*, p. 70; see also pp. 75, 104, 233, 240.

cal administration in the light of present knowledge. Says Professor Slichter:

> If a union is charged with requiring the employment of an unnecessarily large crew on a machine or unreasonably limiting the number of pieces that a man can produce or the number of machines that he may run, how can "reasonableness" be determined?[88]

A different rule would have to be made for each case, and each decision might depend upon exceedingly technical and complex facts. It does seem that it is not now possible specifically to regulate satisfactorily and in general terms the imposition of make work rules. The only direct method of public control would be by some scheme which would provide for government dictation of nearly all nonwage provisions of every collective bargaining agreement. No one wants that.

The present proposal seeks to reach the make work rules in an entirely different way. First of all it is suggested that there should be a clear statement of the public policy against them. The principal uses of such a statement would be extragovernmental. It would at least admonish the parties. It would furnish a guide to arbitrators, and to public servants in like capacity, who may be called upon to determine whether a proposed restriction should or should not be inserted in the contract. At the present time the public has not spoken. There is weight to the arguments advanced by the unions that until the public does speak, it is not to be assumed that such rules are contrary to the common welfare. Oftimes the immediate advantages to the workers of such restrictions are obvious and the injury to the public seemingly remote. The consequences of that injury should be focused upon the problems, case by case, as they arise. It is almost universally expected that after the war disputes will tend to be resolved more by adjudication and less by strikes and lockouts. It is not beyond contemplation that the mere declaration of public policy might have more influence upon the evolution of collective bargains than any outright prohibitions which could be contrived.

Correlated with these purposes is the suggestion that labor be required to bargain concerning such restrictions. It has been shown that not infrequently they descend from union rules which thus far some unions have succeeded in imposing by purely unilateral action. The employers are required to negotiate on such questions. Why should not the unions be duty bound to do the same? In this fashion the bargaining power of management may be strengthened on the subject and some restrictions may disappear through the normal processes of negotiation.

Moreover, it is suggested that the administrative agency be required to investigate and publicly report upon make work rules. It is not too

[88] Slichter, *op. cit.*, p. 99.

much to hope that this, too, will have a salutary effect. Such restrictions thrive best in darkness and in deep shade. If they can be brought into the bright sun of public attention it is altogether probable that from this cause, many of them, perhaps even most of them, will wither away and disappear.

This is an essay. It is an essay in the sense that Montaigne used the word. It is an attempt. The thesis is simple. Through the extension of collective bargaining there has developed an industrial common law of make work rules and restrictions upon the freedom of trade. These are contrary to the public interest. Their occurrence is frequent. Their consequences are sufficiently great to warrant public action. If the public is to act in its own behalf there must be submitted some specific proposals toward that end. The best approach would be, first, to prohibit those restraints of trade which fall outside the proper scope of collective bargaining, and, second, to create a climate unfavorable for the development of those work fund rules which fall within the proper scope of collective bargaining. Perhaps in the future there can be built up a body of knowledge through which public policy with respect to make work rules can be more particularly declared if they survive the indirect deterrents presently suggested.

DISCUSSION

JAMES J. ROBBINS: At the fifty-fourth annual meeting of the American Economic Association, Corwin Edwards presented an economic appraisal of public policy toward restraints of trade by labor unions, in which he came to the conclusion that "there is ample evidence that if the legal duty of unions under the antitrust laws were clearly established, labor leaders would accept and conform to the law as willingly as do the leaders of business."[1] Mr. Littler, on the other hand, does not trust the proposed extension of antitrust to cover the abuses he arraigns. The rule of reason makes antitrust policy too vague and uncertain. He would have a new and different statutory structure. I confess that I do not find in his proposal for an independent approach to the problem a promising solution; this for two reasons. A statute is proposed, the crucial terms of which are so intrinsically undefinable at the present time that it would be ineffective. It is, moreover, a prescription for the symptoms and not for the disease.

At first blush, the proposal would seem to be a radical reversal of the well-conceived principle of public policy that freedom should be the rule and restraint the exception, particularly in economic matters and even when they concern collective bargainers. Mr. Littler, on the contrary, would carve out an allowable area of economic conflict within which collectivities of employees and employers could licitly vie for advantage. Concerted action would be allowable as to "wages, hours, and conditions of labor." All else would be prohibited. A *nihil obstat* would clear the way for collective bargains that measure up to the standard of declared public policy. The enforcing agency could prevent the negotiation of any other bargains. Now whatever may be thought of the illiberal character of such a proposal, it is an arresting design for shackling evildoers defined as any who collectively undertake to do what is not laid down as good. A sharp line would thus be drawn about the area within which collective bargains accord with the public interest.

But on closer inspection the pattern dissolves at the edges. The line between wage and nonwage issues, and between issues that do and do not bear a direct relation to "wages, hours, and conditions of labor," could probably be drawn no more satisfactorily and precisely by a legislature than it has been drawn in practice at the bargaining table and by labor relations boards. It is, in fact, a still undefined line, and the very drawing of it leads the draftsman into problems that beg the very question at issue;namely, the legitimate role of organized labor in "the organized business."[2] I should have found it easier to agree had Mr. Littler asked for a declaration of public policy on this issue. What is the essential difference between a court searching for "unreasonable" restraints on trade under the Sherman Act and an enforcing agency under Mr. Littler's statute laboring with this tortuous line? A strongly antilabor enforcing agency, to be sure, could well find in such a statute a useful instrument of antiunionism; but the kind of an agency that we would

[1] *American Economic Review,* Mar. sup., 1942, pp. 432, 448.

[2] Neil Chamberlain, "The Organized Business in America," *Journal of Political Economy,* June, 1944, p. 97.

probably have (say a tripartite tribunal) would soon find precision an elusive thing indeed. In such circumstances, there would be little certainty of nailing the practices which violate the public interest. One is thus led to inquire why it would not be better to isolate and define the abuses to be prohibited rather than the good things to be hoped for.

Major criticism runs to a deeper issue, however. Mr. Littler lays before us some symptoms of a serious pathological condition of the body politic. It would be well to have a more penetrating diagnosis before attempting to prescribe for the patient. The restrictive practices here arraigned are but a special case of a general and persistent type of predacious activity apparently endemic in every society and notoriously epidemic in certain contemporary states where the instruments of public and private government are used to enrich the Gauleiter and the privileged group. Nonproducers who extract the products of economic activity to satisfy their own wants without rendering any service in return prey upon the economic system. Predacious activity is not confined to collectivities; it is not even necessarily characteristic of them. Yet Burke's apprehensive observation that "liberty when men act in bodies is *power*" expresses the peculiar distrust that leads legislators to deal separately with combinations. It will be observed, however, that the restrictive practices mentioned in Mr. Littler's paper are but a small segment of the predacious activities which prevail in contemporary society, many of which are well established and even bear the stamp of respectability. A fundamental attack upon this problem would necessarily lead beyond collective bargaining in the labor market to bargaining between collectivities in general and thus into a broadly sociological and political analysis.

Predatoriness of this kind does not always stem from the intent to plunder. There are deeper causes for the work fund, for example, than the mere perversity and selfishness of those who imagine that they stand to benefit by it. Much of the concerted action of labor appears to arise from an effort simply to protect a threatened interest by self-help. Insecurity sets up an imbalance; private action occurs in the face of public inaction. If the rationale of our political economy includes as a major postulate the competitive principle buttressed by freedom and responsibility to assert one's interest by all but clearly unlawful means, normal expectation will prepare us for extensive private concerted effort to prosecute claims on both sides of the table. The resultant compromise, even when public authority enters into the process only as traffic policeman, is often presumed to be an identity of public with private interest. The record, of course, shows that this is not the only possible result. Collectivities of men, even (and perhaps especially) men in need, who bargain thus can as easily agree upon a mutually satisfactory compromise which leaves the consumer public to pay the whole bill. When the social structure comes to be, as it is today, a complex of competing groups, it is often difficult to safeguard identifiable individual rights.

The received theories of the structure of social action are not well designed to account for such associational phenomena. Our preoccupation with the secondary characteristics of what we call collective bargaining leads us to overlook the long-range significance of it. Liberal societies encourage the

growth of voluntary associations; illiberal and totalitarian societies suppress or "co-ordinate" them. A collective bargain can occur only in a liberal society in which freedom of contract and freedom of association prevail. There is evidence that many contemporary societies are moving away from this liberal pattern. Shall we hurry the process in our own country by fixing the status of labor market collectives by statute? It is entirely possible that we shall have no other choice. But if the task is to be undertaken, we should have a better-than-casual theory of the plan we have in mind for accommodating within the social structure by legislation and decree the hitherto autonomous groups which continue to flourish under the impetus of liberal thought and action. The power of organized labor and the power of management, as distinct from public power, are both possible only in liberal societies. Honest citizens are dismayed by the spectacle of such private power. They cry out for correctives. They are often impatient with academic discussions about it. Yet a theory is needed by which the larger problem can be attacked. One phase of that problem is the government of industry,[3] a phase which may escape the attention of one who approaches the labor problem with an exclusively economic analysis. The industrial jurisprudence which unfolds before us is traceable in large parts to emergent sectors of private government. There are strong tendencies to transfer to the legislature the whole business of lawmaking in the entire industrial sphere. Another way is to recognize the necessary place of custom and contract in the growth of the law of industrial jurisprudence. This means, to be sure, a proper control of the private powers which determine the path of the law. Basic to our constitutional system is the principle that the powers (often vast) which are necessary to carry out the legitimate purposes of government must be canalized and duly restrained. The identical principle of responsibility applies to the power of great social aggregates such as labor unions and employers' associations. We have hardly begun to answer the question of how it is possible to constitutionalize these powers. Constitutional issues in public government are widely, and sometimes wisely, debated. The issues of constitutional procedure in private government and the twilight zone of quasi-public government, on the other hand, are still scarcely statable.

I have criticized the proposed remedy. The pathological condition remains. How should it be treated? The answer depends upon the diagnosis. I have suggested what seem to me to be the deeper causes of the malady, the symptoms of which occupy Mr. Littler's attention. I am by no means certain of the correct diagnosis; but no doubts beset me as to the inadequacy, and even the danger, of a remedy that prescribes surgery which in all probability will not reach the lesion and may excise some very useful and healthy organs.

[3] "The union is the prime organization through which a majority of the workers seek to realize their strength, to express their total personality as it is involved in the industrial process, and to function effectively in *the government of industry.*" L. L. Jaffee, "Union Security: A Study of the Emergence of Law," *University of Pennsylvania Law Review*, Dec., 1942, pp. 275, 302.

AVIATION IN THE POSTWAR WORLD

WORKABLE COMPETITION IN AIR TRANSPORTATION

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Since commercial air transport is in the active stages of development and there are still uncertainties concerning policy affecting the economic pattern of the industry, a discussion of its competitive aspects is particularly challenging. From a practical point of view it is obvious that the competition will never be of the atomistic type envisaged in the theory of perfect competition. Because of the finite quantities of traffic available, the technical advantages of large planes, and the importance of good use of load capacity to keep costs down, there cannot be more than a limited number of carriers in any one of the naturally demarcated air transportation markets. The range of market conditions is thus between monopoly and oligopoly, with particular interest attached to the number comprising the oligopoly. But as important as the number in the market are many of the other environmental factors which affect a firm's operation. The possibility of differences in the terms upon which the inputs of the firms are purchased make it necessary to consider the characteristics of input markets. The differences in the configuration of output markets as between the firms raise important problems. Then what significance do all these various factors have to a workable state of competition and in turn what benefits has that state of market affairs to offer?

As far as air carrier inputs are concerned, the three principal ones—labor, equipment, and airports—include such a substantial share of total carrier costs that an analysis of their effects on carrier competition should be sufficient. In the United States, labor inputs are largely purchased in a market where national unions have a monopoly of bargaining for their respective classes.[1] From this position the unions deal with something more than a dozen users of labor, either as separate firms or in groupings formed by voluntary association of those firms. In general the unions press for standardized rates of wages, except where regional differences are substantial, so that there is no room for one competitor to get his labor inputs at significantly different costs from others in the same type of market. The market in which

[1] Ninth *Annual Report of the National Mediation Board,* for year ending June 30, 1943, Table 14, facing p. 42—On all but one of the sixteen domestic airlines in the United States the pilots were represented by the Airline Pilots Association of America, and on twelve the mechanics were represented by the Air Line Mechanics Association, International. These unions are the sole bargaining representatives, under the provisions of the Railway Labor Act, in accord with Title II added to the Act in 1936.

airplanes and engines have been purchased by carriers has gone through several phases. In the early stages carriers were frequently controlled by the manufacturers. Later came the era of holding company control with independent carriers and manufacturers becoming affiliated through various financial ties. Under either of these two modifications of free input markets there was the possibility of favored prices or other preferential treatment to related carriers. There was also the reverse possibility that a carrier might be saddled with poorer equipment or higher costs than it would with arm's length bargaining in the open market because it was forced to deal with its affiliate. Either way the relative performance of competitors could be seriously affected by factors not based on efficiency or satisfactory response to demands. In 1934 in the United States the terms of a new air mail act forbade interlocking relationships for air mail carriers. Because air mail revenue was such a substantial part of the total this law in effect prevented such relationships for carriers in general. A state of workable competition between carriers, in a field where equipment means so much to service and costs, is only possible in the long run if all firms are on an equal basis in respect to their purchases of that equipment.

In England an added question has been raised concerning the possible interaction between the presence of competing carriers and the position of equipment manufacturing. At the time of the formation of the British Overseas Airway Corporation as a single chosen instrument in the international market, it was stated that the previous arrangement of several private carriers did not provide the British manufacturers with the stability of models and output necessary to insure progressive development.[2] It had previously been pointed out that those manufacturers had failed to meet important needs of B.O.A.C.'s predecessors and that the latter had been forced to use foreign planes to keep their place in the international air transport market.[3] While this verifies the previous point of the importance of equipment to a carrier's standing in the transportation market, it scarcely considers all sides of the problem as far as the equipment market is concerned. A review of the American experience during the same period offers some contrasting conclusions as to the effect of a competitive carrier pattern on manufacturing. Planes of more different manufacturers were used in regular service by airlines in 1934 than at any time since—the list included Boeing, Douglas, Ford, Fokker, Lockheed, Curtiss, and Stin-

[2] In the readings of the bill to form the British Overseas Airways Corporation as the chosen instrument to replace the several British companies in foreign air transport one of the reasons given for establishing the monopoly was that it would better develop the British air craft production. Reported in ***Modern Transport,*** No. 1061, July 15, 1939, p. 9.

[3] The Committee of Enquiry into Civil Aviation in the so-called "Cadman Report" of Mar. 1938, stated that there were no medium-sized British airliners comparable to foreign makes, reported in ***Modern Transport,*** No. 991, Mar. 12, 1938, p. 14.

son. After 1934 technological factors appeared to be more significant than market ones in determining the number of firms successfully supplying the demands of the air transport companies. Out of a field of six manufacturers two stood out. The emergence of Douglas planes, first of fourteen passenger capacity, then of twenty-one, on all of the big four domestic carriers in the United States, as well as on other companies as their traffic density increased, can be accounted for only in terms of the pre-eminence of a particular design in respect to the change in demand toward higher capacity planes. In the same period, while the lower density lines obtained a substantial part of their equipment in the form of secondhand planes made obsolete on the other lines, for their new plane needs the Lockheeds of ten, and later six and fourteen passenger, capacity established as dominant a position as the Douglas did in the other part of the market. The establishment of such a position by single manufacturers in each market obviously gave them an advantage over any new manufacturers who might want to risk breaking in. As the size and cost of planes increased the advantages to those already established were even greater. That the risk proved not to be a real deterrent is indicated by the entry in 1941 of Boeing, Lockheed, and Curtiss in the field of large land planes for passengers or cargo. In part this may be accounted for by the fact that manufacturers also have the market of military planes, which provides a basic labor force and financial capital from which commercial development can spring more readily. There is also the possibility of foreign sales which, if a model proves as successful as the Douglases and Lockheeds, will be considerable. All told it would appear that, even with the relatively small prewar domestic sales,[4] there was room for several competitive manufacturers to successfully push forward technical advances and meet the varying demands of a substantial number of competing air carriers. It would appear that those of the British who thought to use a monopoly structure in the carrier field to put progress into their manufacturers can get slight argument for their side from American experience.

Another pertinent aspect of the plane market developed during the period when Douglas was the dominant producer of large land planes. Several of the major airlines found it desirable to reach a working agreement on standardized design and on allocation of new planes

[4] *Production of U. S. Domestic Civil Aircraft*

Multi-motor land planes	*1935*	*1936*	*1937*	*1938*	*1939*	*1940*
6-12 place	?	37	32	13	21	29
13-20 place	53	8	16	13		
21 and over		28	57	16	55	118

Source: 7 *Air Commerce Bul.* 244; 10 *ibid.* 296; 2 *Civil Aeronautics Journal* 79.

among themselves. This was a significant modification of the market situation, possibly affording protection against temporary monopolistic pressure by the manufacturer and certainly insuring production of a particular model in sufficient volume to spread developmental and tooling costs over a wide base. This allocation of output prevented any of those within the agreement from getting a temporary competitive advantage by obtaining a superior fleet ahead of the others. But there is inherent in such an arrangement the possibility of discrimination, at least for the first year or so of production, against carriers which might not be allowed to join the agreement first off. Workable competition would require at least the protection against that possibility by full publicity with respect to such agreements, as well as by prohibition of interlocking manufacturer carrier control.

It can hardly be doubted that the last input to be considered—that of airport facilities—could potentially have more effect on competition than any other. Here we have a facility which for technical, promotional, and military reasons has been developed almost entirely by governmental agencies. In the ordinary market situation the holder of the monopoly of landing facilities for a given area would be expected to exact all that the traffic could be made to bear. Up to a point the more carriers wanting to use the facilities the better would be the owner's bargaining position. In turn a motive for grouping together of carriers to combat the monopolist would exist. However, the offer of the use of such facilities for domestic operations has been made in terms purely arbitrary and unrelated to cost and profit, with a view solely of attracting as much air carrier use as possible. This has occurred basically because airports have been promoted to attract trade and provide improved communication for the sponsoring communities and to generally foster the new transportation. The capital has not been obtained from private sources for the promise of return, but largely from general government funds allocated by legislative action. The real surprise is that under these circumstances there has not been more objection by airport agencies to restrictions on carrier operation by way of chosen instrument policy or the like.[5]

While discrimination against carriers could easily occur with the possibility of arbitrary local government action as to terms of access to airports, this has not yet risen as a problem domestically, and is not likely to do so as long as traffic demands do not exceed airport capacity. With substantial future growth of traffic, however, the danger may arise. Experience of the railroads in respect to their similar problem of

[5] The New York Port Authority has shown an interest in having competitive American air carriers use New York air ports, and Liverpool airport authorities have indicated worry over the British governmental policy of limitation of firms.

terminal lines and switching companies indicates the possible importance of this factor as air carriers develop further. In the developmental and early expansion era of the railroads, competition was more between line-haul routes, while later the emphasis was on developing terminal tracks giving access to urban industrial and commercial areas between which the intercity routes could be used to move traffic. Today a railroad's competitive standing depends at least as much on its access to shippers and consignees in terminals as it does on its line-haul characteristics and many a railroad would have different competitive strength were it not for the monopolistic elements affecting terminal use. This experience is a warning that the future maintenance of workable competition between domestic air carriers will demand foresight in avoiding those elements in airport use. The first precautions should be the prevention of carrier control of airports, publicity as to contracts for access to airport facilities, and insistence that agencies administering airports operate under the public service obligation of impartiality to all. When the time comes for air carriers to make their contribution to airport costs, the fixing of charges will also have to be according to a nondiscriminatory public utility concept.

The use of airports in connection with international air transport introduces the possibility of nationalism as a factor determining the terms of this use. Because the national government can assume powers which override those of the local government agencies administering individual airports, the motives of the latter which might lead to free access must give way to any national policy should it be to the contrary. The recent objection by the British to allowing foreign aircraft the freedom to tap traffic along with access to their airports, is a case in point.[6] The pattern of competition between international air carriers is to be molded by bargaining with the key input of the industry. This viewpoint is an interesting commentary on consistency, for the nation which has gained most by the freedom generally allowed foreigners to collect and discharge international water-borne traffic at water ports, is arguing against the principle of that freedom in another field of transportation. So much depends upon which foot the shoe is on.

When it comes to discussing the characteristics of carrier output markets which may effect the pattern of competition, substantial emphasis is bound to be placed on air mail. For mail there is a single purchaser of the service in the case of domestic operations. In the early

[6] The British refused to agree without restriction to the privilege to put down passengers, mail, and cargo taken on in the territory of the state whose nationality the air craft possesses; the privilege to take on the same destined for the territory of the state whose nationality the aircraft possesses; and the privilege to take on or put down the same destined for the territory of any other state. (These are the third to fifth "freedoms of the air.")

stages of development of the American domestic air lines the revenue from mail services was almost the only source of income. Even by 1931 the mail revenue of the four largest lines was over three times the passenger revenue, and for three smaller lines four times.[7] Because the buyer of this service was the government rather than a private firm, explanation of the market could not be accounted for in terms of monopsonistic responses. Rather, the buyer's decisions were based on arbitrary factors, varying from legislative requirements to the whims of the postmaster who happened to be in power. Throughout, there was a consistent desire to promote air transportation and on many individual routes this meant paying more for mail transportation than the postage revenue provided. The post office decisions as to what routes should be air mail routes largely controlled the pattern of domestic airline development because entrance into the industry with few exceptions depended upon obtaining the all-important air mail revenue. Only the fact that there existed a tradition, which does characterize the ordinary firm's attitude to its input markets, of maintaining competition to prevent excess costs accounted for the existence of some few elements of competition, such as competitive bidding of limited effectiveness and some competition of routes.

The dominance of this type of arbitrary action in the future competitive relationships of carriers seems less necessary as mail revenue declines in importance. After 1934, the changed basis of mail payment and the long-hoped-for rise of passenger traffic changed the picture sufficiently so that by the last peacetime year, 1941, the four large domestic carriers got four times as much from passengers as mail. Intermediate-sized carriers felt the shift to a lesser degree and a few smaller ones in sparsely populated areas still found mail contributing more than half of their revenue.[8] It would appear that this decrease of emphasis on air mail for the major volume of air transport, together with the acquisition of considerable experience with cost data should allow the development of more satisfactory bases of payment. The emphasis on individual routes and on what is necessary to make up the difference between costs and nonmail revenue can be abandoned at least for the denser traffic air carriers.[9] Instead payment can be based on

[7] Investigation of the U.S. Postal Air Mail Service, House Rep., No. 2087, 72d Cong., 2d Sess., pp. 8-10.

[8] *Moody Industrials*, 1944, various pages.

[9] In 1935 the Interstate Commerce Commission under the provisions of the Air Mail Act of 1934 determined air mail rates for individual routes, with minimum rates per airplane-mile varying from 24 to 33 1/3 cents for a base of 300 pounds or less. Total operating expenses varied from 20 to 80 cents per plane-mile and averaged 52 cents. The base of 300 pounds represented but a small fraction of the capacity (1/10) of planes on a large share of the mileage, but the rates were so high as to be paying for roughly one-half of the operating expenses. 206 ICC 675, 725, 778 (1935). While the Interstate Commerce Commission's responsibilities were transferred in 1938, the basis used by its

say 50-pound units per mile of capacity used or contracted for, with the payment for that capacity determined from regional average costs and possible earning power if devoted to alternate use much as is the case with railway mail.[10] This would mean, for instance, that an air carrier providing 300 pounds mail capacity for any 1,000 miles through a reasonably homogeneous territory like the Middle West would get the same amount from the post office department for that service as any other carrier doing the same. Each carrier would have to be satisfied with the flow of mail which happened to move along its route, and make its adjustments in schedules and equipment conform to this demand just as it does with the pattern of passenger and cargo demand.

In contrast to the domestic, the international market for air mail transportation is confronted with multiple purchasers, for each country has control of contracts for its outgoing mail traffic. It would be nothing short of tragic if the custom existing with respect to water transportation of a nation using only its own carriers for transporting the mail traffic over which it has control were transferred to air service. Mail is likely to use so much greater a proportion of total carrying capacity of air carriers than it does of water, that any obstacle to uniformly high utilization of air mail capacity in both directions of traffic flow is bound to result in seriously reduced over-all load factors and high costs. If the normal economic mechanism of price were operating in such a true joint-cost situation there would be a tendency to balance loads, within the limits of different demands in the two directions. Yet there is a danger that post office departments may be used as tools of government to mold the pattern of international air competition by favoring their own nation's carriers or carrier, even at the expense of taxpapers or purchasers of air mail postage.[11] In this case there is far less possibility than in the domestic field of ascertaining effectively a reasonable level

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successor, the Civil Aeronautics Board, up to the war "was much like that one which existed prior to the passage of the Civil Aeronautics Act of 1938." 2 CAB 683, 697 (1941).

[10] The Interstate Commerce Commission in 1919 established railroad mail rates for various space units stating that "in the instant proceeding extraordinary efforts have been made to determine the cost to the railroads of transporting the mails of the country. The results obtained are fairly open to criticism in some respects; nevertheless, we have before us enough reliable data to enable us to reach an approximation of the cost of the service as a guide to the establishment of rates of compensation to the railroads that shall be fair and reasonable.

The essential elements to be considered are that payment shall be made in proportion to the service performed; that it shall increase and decrease with the amount of the service; and that it shall give due recognition to frequency and kind of service. Mail, for the most part, is carried on regular passenger trains which are operated with special reference to passenger business, and it seems that compensation for carrying it should bear some relation to what the railroad can earn by using space required by the department for some other purpose." 56 ICC, 6, 64 (1919).

[11] That it is possible to agree on reciprocal arrangements between post office authorities of different countries for the utilizing of and payment for each other's return services is shown by contracts made for New York-Bermuda mail. 1 CAA 529, 535 (1940).

of rates that could be adhered to uniformly. The all important variable in cost, load factor, is likewise subject to the above mentioned arbitrary forces.

Probably the most important competitive problem in the output markets revolves around the difference in geographical pattern of the carriers. By way of illustration, in the domestic air transportation field there are three truly transcontinental carriers: American, Transcontinental Western, and United. These firms compete for the long-haul traffic in that two of them provide through service from New York to Los Angeles and two to San Francisco. One of them has competition from both the others; in turn these have it from but one each. The former taps the traffic of both of the two big Pacific Coast metropolises in recompense for its extra competition.[12] These three patterns, though not exactly balanced and certainly not identical in form, each appear to be in a reasonably workable competitive position, assuming that their eastern sections serving Chicago and New York are not out of balance with each other. But what of a fourth company, Northwest, originating at Chicago and reaching the Pacific Coast at Seattle and Portland—cities with far smaller tributary populations than the areas tapped by the other three carriers? This company must compete for its through traffic with United which also taps these Northwest cities but it does not have the heavy New York-Chicago traffic which United has from which to draw large revenue and income. Nor does Northwest have the advantage of attracting through Pacific Coast passengers to its line by having them already in its planes from the great eastern traffic generating centers. Certainly Northwest because of the limitations of its geographical pattern does not have the potential financial strength that United has. If it is to compete with United on the long haul it needs comparable equipment and yet the density of traffic on its own long haul hardly justifies as large equipment as United, which puts Northwest at a disadvantage. Is Northwest therefore in a position where it must give up competition and become part of United; or must it find some big traffic source like the Chicago-New York one to bolster its resources; or can it remain in an intermediate class not of transcontinental magnitude, but still not just local? These differences of geographical patterns and their competitive implications are multiplied many times over in domestic and international air transportation markets. It is with a view to improving weaker patterns that weaker lines may consolidate with one another or may seek extension.[13] It is to strengthen already

[12] The description of these patterns should possibly also include the service of Western Air Express, from Salt Lake to Los Angeles, complementary to United, and from 1940, as a result of air equipment interchange agreement providing through plane service via United from the East into Los Angeles. 1 CAA 723 (1940).

[13] Typical of such action in the domestic field was the request of Northwest to extend

strong systems that the latter gather others to themselves. Financially the former process is difficult and the weak tend to remain weak. The strong on the other hand find it easy to improve their position. Only unusual management or major shifts in sources of basic commodities or in population are likely to override these tendencies. If competition between carriers is to be kept going it is hardly to be achieved by letting "nature take its course" and the stronger competitors gobble up the weaker ones, until only the strongest one or two of all survive. Some degree of regulation of competitive patterns is clearly necessary. The minimum requirement would be to prevent the building up of any all-powerful carrier. No carrier should be permitted sole access to one of the larger flows of traffic for to do so would enable it to support losses or spend too freely on other sections where competitors might not have the blessing of such financial background. Conversely each carrier in a given class or on the same general level of competition should be allowed to participate with over-all equality in the large pools of its class of traffic, though not necessarily in exactly the same ones.

It is obvious in seeking this ideal of rough equality of financial and traffic bargaining strength that the wider the classes of service encompassed by single firms, the more complicated the balancing of the values of different routes or sections. Likewise the greater is the chance for subsidy of the weaker operations of a company by the earnings of operations favored with high rates, good load factor, and other advantages. Thus in line with previous reasoning, ease of maintaining workable competition argues for restriction of the scope of an individual carrier's operation to a homogeneous field to which his competitors too would be confined. Domestic carriers would be kept out of international operations, and the reverse would be forbidden. Likewise feeder operations would be dissociated from transcontinental. The pattern would naturally have to vary depending upon the extent of domestic differentiation and commerce of a country.

The importance to competitive strength of sources of financial strength from particularly remunerative operations leads to consideration of the problem of affiliation with other types of carriers. As transportation companies go, air lines are and for sometime to come seem likely to be relatively small. The biggest prewar revenue for a single firm was just over $26,000,000, and the corresponding depreciated property value was $6,000,000. This was small compared to the typical American railroad and even allowing for tremendous growth the capital assets will still be relatively small in value. The financial advantage to an air carrier of being related to a railroad of successful standing could

their operations to New York in 1939. 2 CAB 627 (1941). This year will see Northwest enter New York, not via Chicago, but rather via Detroit and Milwaukee.

be considerable—an ample source of capital would be available, bargaining for traffic could be aided by the value of railroad purchases and by obligations that were owed to the railroad. The risks to the railroad in connection with these possibilities would be slight; so that the support could be given unhesitatingly. An independent air carrier would be at a great disadvantage competing against one with such support actively pressed, as might well be expected in the normal fight to get traffic. Affiliation of air carriers and large steamship companies would cause similar competitive inequalities. If independent air carriers are to be allowed freedom of enterprise, they must be protected in their competition from air carriers having access to the comparatively large outside resources that would be provided by tie-ups with larger surface-transportation organizations.

It is apparent that workable competition in the air carrier field is something that is not easy to achieve and is not likely to exist if the competitors are left entirely to their own devices. Most of the difficulties, however, are of a nature that can be reduced by an inactive sort of government regulation—a series of prohibitions—against interlocking controls or combinations of air carriers with equipment manufacturers or other type of carriers; against the refusal of one carrier to share a particularly remunerative market; and against the erection of excessively large carrier empires. This must be accompanied by nondiscriminatory, uniform bases for access to airports, and uniform payments for air mail services. Within such a conditioned environment individual firms would be free to make their own price decisions, promote sales, vary their offerings of service, apply capital as they see fit, and make technological progress—all to their own best advantage. The things they would not be free to do would be things which if they were done would intrude on the freedom of some one of their own sort. This is the old issue so seldom fully thought through in its ultimate implications. We should have freedom of enterprise, but is that freedom to include for some the freedom to prevent others from partaking of freedom? Are those some prepared to sacrifice sufficiently to ensure it for all?

The aspects of workable competition so far discussed suggest little about the desirable number of carriers in the market. The argument for more than one rests upon the need for a competitive whetting of men's actions. The need for that in a rapidly growing new field is perhaps not so evident, because of the vigor induced by new technological advances, the youth of the organization, and challenge of developing new markets. With the advent of relative stability in the industry, most economical operation and continuous advance depends upon providing every incentive and opportunity for improvement, lower costs, and

lower prices. The more independent organizations there are, allowing greater variation in policy and personnel, the more separate incentives and opportunities there are. What may be turned down under one administration has the possibility of being accepted and rewarded under another. This suggests that from the long-run point of view particularly, the criterion as to the number in a market should be whether there are enough carrier firms in each of the primary categories of markets to insure a reasonable chance that potential innovations will be tried by at least one firm. To illustrate from another field, that of automobile manufacturing, this criterion might be defined as a great enough number of firms to insure the probability that a Ford would have risen to a place in the industry and that the benefit of his originally radical idea of low prices and mass production would have accrued to the world.

A rather broader consideration is the possible effect that the number of firms has on the incentive provided by prospects of personal promotion in an industry. One of the attractions to active men is the chance for promotion to top jobs, and the more firms there are, the greater are those chances. With a single firm or monopoly the possibility is so remote that a substantial share of incentive may be lost and as the organization becomes mature there is a great risk that the pall of seniority falls over the lower ranks. A duopoly is little better. Eight or ten firms begin to reach the stage where the odds in favor of reaching the top jobs become sufficient to maintain a tradition of incentive, reward, and final independence.

In the current air transportation picture within the United States a critical area with which to illustrate the issue of desirable numbers is that of the transcontinental, or possibly better called "continental," market. There now are the three strictly transcontinental firms and there is Eastern which crosses the country more in the north-south direction which is of the same order of magnitude as the former. Are these three or four enough to satisfy this criterion? An average expectancy of term as chief executive of twenty years would bring a new leader into this general field on the average of but once every five years, with the outside possibility of no change short of twenty years. Considering that by no means every new addition to the ranks of leaders will be an important contributor of innovations, the real chance for progress is much less than even the five-year interval would seem to indicate. Double the present number of major firms would seem to offer markedly more hope for long-run progress both because of the added competitive spur and the much increased chance that the potential innovators of each decade will be included among the leaders. And in terms of earlier discussion, in a country the size of the United States the

future volumes of air traffic would seem to offer sufficient amounts and routes of flow to enable the evolution of sufficient workable competitive patterns. Certainly in the future, with the probable heavy flows of international air traffic over the wide expanses of world communication, the benefits from and the opportunities for a number of firms for each major country seem equally great.

To insure these advantages of numbers there must be protection against restrictions by industry or trade associations, rate associations or conferences, or the like on this freedom of competitive action. The history of transportation competition demonstrates the inevitable growth of these private quasi-regulatory agencies. They perform obviously useful functions by way of co-operative tariff publication, policing of rules, and providing channels for intercommunication and standardization. At the same time they have the potentiality of making individual carrier innovations difficult and if they become dominated by a philosophy of maintaining the *status quo* they can do much to counteract the gains from having several firms. Being private agencies they are without responsibility for broad publication of the basis of their actions. Legally they have not as a whole been subject even in elemental respects to the controls by public regulatory bodies that the carriers themselves have been.[14] The least that seems necessary to prevent such associations in air transportation from denying the effectiveness of workable competition is that the basis of their actions be made an open book so that public opinion might check excessive restriction on individual carriers.

A usual economic argument against having the greater number of firms is that small-scale and low-output operations are not the most efficient. This argument is given force by its acceptance and promulgation by those who for reasons of prestige and desire for power have the urge to increase the size of their own operations and by those who resent intrusion on their freedom of action as monopolists. The argument itself deserves rather careful scrutiny. It stems from the generally accepted parallel in manufacturing and other industry. Aside from a rising suspicion that the importance, in many cases, of increased scale of organization or of high levels of output to lowered costs has been overdrawn,[15] the accuracy of the analogy from manufacturing to air transportation may be questioned. The cost characteristics of air lines hinge almost entirely around plane operation itself, because of the

[14] For instance, the only review by the Interstate Commerce Commission of rate association activities in the railroad industry was in 1922 at the direction of Congress by a Special Senate Resolution and not under the authority of the Transportation Act. 77 ICC 252 (1923).

[15] For instance, the statement that "constant marginal cost within the usual range of output may be more prevalent under modern operating conditions than has been implied by much economic theory." Joel Dean, ***The Relation of Cost to Output for a Leather Belt Shop*** (1941), p. 52.

absence of carrier investment in such large elements as airports and route facilities. Thus roughly half the costs are direct flying costs varying closely with miles flown, and in the long run a substantial part of the remainder are in proportion to the extent of service. There is no statistical evidence that the general expenses decline relative to the others as the size of the firm increases. It seems even less possible that any significant savings would arise out of increased size due to expansion by encompassing quite different types of operation, such as international with domestic, because technical differences would require substantially separate divisional organizations and equipment for each part.

A final consideration involves the more orthodox issue of the influence of the number of firms on level of output and prices. In this case there is no possibility of making comparisons with perfect competition; the only choice is between monopoly and oligopoly. The cost characteristics, except for the short run, of air carriers are, to a controlling degree, such that, with a given state of technology and with a given nature of traffic and its related load factor, the average costs and marginal costs are far more nearly constant than are indicated by most of the hypothetical curves used to illustrate theory. The theoretical position of prices and output set by the monopolist, free to act as he pleases, is in theory determinate. With the negligible variation in marginal costs and with the general equalization of prices customary in transportation markets, various divisions of the market among an oligopoly of firms, assuming they are all as well run as the monopoly, would leave prices and output the same as with monopoly. There are, however, significant differences that are not developed in present basic theory. The more firms there are the greater the chance that one of the oligopolists will (not to his best interests according to theory) put his prices down below the level for his maximum profit. The others will follow and the profits of all will decline. In practice the desire to keep profits up will then lead to greater incentive to lessen costs; so that some of the slack in expenses will disappear. Anyone with experience in industry knows there are often significant leeways in costs under the high price conditions of monopolistic markets and that the lowering of price can bring about changes in the level of both average and marginal cost curves.[16] It is clearly desirable to have this slack eliminated if the resources of a country are to be most effectively allocated and used. It is a process which cannot be brought about with monopoly. Even a regulatory

[16] A preliminary exploration into this general area, though not in the field of transportation, is presented in the article by P. T. Bauer on "Rubber Production Costs During the Great Depression." His conclusion is that "it may well be that, over a wide range of industry, the price of the product is at least as important as the scale of output as an influence on costs." *Economic Journal*, Dec., 1943, p. 369.

agency controlling a monopoly is at a loss to do it because no accounts of the single firm in an industry show the slack that might be squeezed out of expenses or, if the longer period be considered, the technological advance that could be pressed forward. In fact the influence of regulation may be in the direction of removing some of the urge on the firm to lower costs because the commission may often be counted on to legitimize the higher costs and related prices. There seems to be no substitute for the interaction of one firm against another.

THE INTERNATIONAL REGULATION OF THE AIR

By Quincy Wright
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From the point of view of security, the invention of the airplane has increased the impact of war on the civilian, increased the power differential between great and small states, increased the range of offensive power from a base, increased the rapidity with which war spreads, and increased the feasibility of effective international sanctions. The consequence has been that the individual and the state, especially the small state, have become less secure under conditions of international anarchy. The pressures for, and the possibility of, effective international organization for peace and security have, however, been greatly augmented.

From the point of view of prosperity the invention of the airplane has initiated a new manufacturing industry and a new transportation industry. It has opened new areas—especially Central Asia and Central South America—to world commerce and may give a new importance to the Arctic. Air transportation will affect land and sea transportation, commerce, travel, and cultural interchange in many ways difficult to analyze, but probably with the net result of more frequent contacts of widely separated peoples, cultures, and economies; more social, economic, and political interdependence; and a rapidly shrinking world. Whether these consequences will make for higher standards of living depends in no small measure on the way in which air lines are organized commercially, the way air navigation is facilitated technically, and the way in which security and commercial considerations affect one another.

National rivalries for power and prestige, commercial competition for manufacturing and transport business, the world interest in security, and the world interest in higher standards of living will influence the immediate and long-run effect of this invention which, though less than fifty years old, has already influenced world politics more than had gunpowder a century and a half after its first use as a propellant in the early fourteenth century. The influence of invention on social, economic, and political change is more rapid today than it was in the Middle Ages. Probably, however, we can anticipate that the airplane and the radio in our age will effect changes as profound as those effected by gunpowder and the printing press in the fifteenth and sixteenth centuries.

The efforts of the community of nations to control the effects of the airplane—so potent for good or evil—has been manifested during the past year in two United Nations conferences.

The Dumbarton Oaks proposals, if carried out, will make "national

air force contingents . . . immediately available" to the Security Council of the permanent organization of the United Nations "for combined international enforcement action." The Chicago draft convention and agreements on International Civil Aviation if ratified, will establish certain freedoms of the air, certain technical standards of air navigation, and a provisional and a permanent organization to regulate international air navigation and to develop and apply these technical standards. Both the Dumbarton Oaks and the Chicago proposals initiated projects designed to become universal. The Dumbarton Oaks conference functioned as an instrument of the United Nations which as a collective entity plans to order the world after this war. The Chicago conference included states not among the United Nations, and the Soviet Union, one of the leading United Nations, did not attend. The conference was, however, one of the series of conferences, dominated by the United Nations, for establishing "specialized economic, social and other organizations" to be "brought into relationship" with the General Organization of the United Nations initiated at Dumbarton Oaks.

The objectives of these conferences with reference to aviation was: (1) to assure that military air power would be used for the enforcement of international law and order and not for national expansion and aggrandizement, and (2) to assure that civil aviation would be regulated for the development of international air transport facilities in the interest of the traveling and shipping public. Opinion differed, however, as to the means by which these objectives could best be realized.

1. *Security Problems*. With respect to the first objective, it was urged on the one hand that a genuine international air force should be created and maintained on convenient internationalized islands or other bases immediately available to the Security Council for international policing activities. It was suggested that the personnel of such a force should be recruited by volunteering from all nations, that its matériel should be procured from factories in many nations, its command should be exclusively loyal to the international organization, and its budget should be supplied by that organization. Such an international air force, it was argued, could operate certainly and promptly to carry out decisions of the Security Council for the sole purpose of suppressing aggression without reference to national rivalries which might exist among peace-loving states. Its very speed and certainty would, it was hoped, have a tremendous deterrent effect upon potential aggressors even though it were relatively small. While advocates of this proposal did not anticipate that such a force would at first be greater than the air force of the more powerful states, they hoped that efficiency in dealing with the minor episodes—the border raids, filibustering expeditions, insurrec-

tions, piracies, and banditries—likely to plague the postwar world and not dealt with effectively by any national state would create a sense of security promoting voluntary reduction of armaments by the nations and the progressive substitution of the authority of a representative international organization maintaining law for the unstable equilibrium of power politics.

Opponents of this proposal feared that such an international air force would, if strong enough to be effective, so centralize power in the world that an international tyranny might result adverse both to the rights of nations and the freedom of individuals. If too small to be effective, it was argued, such a force would not influence the rivalry of states for power and prestige as instruments of aggrandizement or security. In any case, they thought, the world had not reached a degree of unity which would make such a plan acceptable to sovereign nations still unwilling to subordinate national defensive power to collective security.

Advocates of this opinion favored the use of national forces remaining under the control of states, each state being pledged to use them only for security purposes as decided by the appropriate international organs.

The result of these differences of opinion was a compromise in which nations would first agree in the United Nations Charter on the principle of making air force contingents available for preventing aggression, and on the organization of a Security Council to call for them and a Military Staff Committee to plan their use. Secondly, they would agree on the size and character of contingents from their forces to be made available. Finally, they would agree upon the regulation of their national armaments. Thus progressively, as confidence increased, it was hoped that a situation not unlike that envisaged by the more daring opinion might develop.

2. *Commercial Problems.* With respect to the objective of developing civil aviation to serve human needs, several distinct points of view were presented. Some wished an international authority, not unlike the United States Civil Aeronautics Board, with competence to plan air routes, to apportion traffic on them, and to establish and maintain navigational and safety standards. It was thought that only with such authority could a fair sharing in international commercial aviation by airlines of all nations be assured, and cutthroat competition and national subsidizing be avoided.

Opponents of this policy feared such an international CAB might be dominated by political rather than commercial considerations with the result that commercial competition would be stifled and efficiency in air transport service would be imperiled. Instead, they asked for acceptance of general principles of freedom to transit through foreign

air space, to stop for fuel, to put off goods and persons originating in home territory, to take on goods and passengers destined for home territories, and to take on or put off goods and passengers at intermediate points on routes beginning or ending in home territories. These five freedoms of the air, it was anticipated, would allow competition to preserve the efficient and bankrupt the inefficient carriers and would thus assure good service to all users of commercial air lines.

Others preferred to treat air lines as a public utility unadapted to competition. The more internationally minded, suggested that one or more international consortiums or corporations be established to own and operate all or certain international air lines. Regulation would thus be by operative controls representing the various competing interests rather than by competition. The more nationally minded of this school of thought advocated government monopolies or "chosen instruments" to own and operate air lines for each nation, the relations of the different nations being regulated by political bargaining, modified by some regulative authority of the general international body.

The considerations motivating these various proposals were numerous. The ideological differences between advocates of governmentalized and of free enterprise economies and between nationalists and internationalists were important. Also important was the historic fact that some nations have already governmentalized their air lines—some support "chosen instruments," and some regulate the competition of private enterprises. Also important was the geographical fact that some nations occupy a position which facilitates bargaining with transit rights and others occupy a position which facilitates bargaining with commercial landing rights. Another factor was the actual economic situation whereby some countries are producing more aircraft than others and some are operating more air lines than others. In this connection the fact loomed up that United Nations' grand strategy had created a distortion of the normal situation in these activities. One state is manufacturing most of the transport planes and operating most of the international air transport lines, while other states are manufacturing combat planes and engaging in little air transport. States in the latter position were worried lest a free competitive situation should crystallize this disparity to their permanent disadvantage.

Negotiations giving due consideration to these divergent interests produced a compromise whereby the International Civil Aviation Organization is to have extensive powers of recommendation on technical matters and limited powers on commercial matters. Freedom of transit and technical stop were accepted by a large number of delegations but the commercial freedoms, while provided in an agreement opened for signature were accepted by a smaller number. The result will be that commercial and national competition will still have a wide opportunity

to determine the character and control of international civil aviation even after the Chicago conventions and agreements go into effect.

3. *Relation of Commercial and Security Problems.* Doubtless the probability of these conventions going into effect among a large number of states and the future evolution of international commercial aviation toward improved services depend in no small measure upon the degree of confidence in collective security after the war.

If the effort of the United Nations, manifested in the Dumbarton Oaks proposals, should fail to develop and to give confidence, states would probably consider aviation, both military and civil, primarily from the point of view of defense, and realization of the objectives of the Chicago conference would be seriously hampered. In the absence of an effective system of collective security, small states incapable of manufacturing or operating enough planes to defend themselves, would feel obliged to put themselves under the explicit or implicit protection of a great neighbor. The great states themselves would probably attempt to prevent foreign made airplanes and foreign operated commercial air lines from entering their territories and "spheres of influence" in order to be sure of the bases, the manufacturing plant, the air men and the know-how from which might be developed a vast military air force in case of attack. Each great state might, however, attempt to go further and to develop its air lines throughout the world in order to acquaint itself with distant bases and flying conditions, and to hamper the development of rival aviation systems. We may be sure that such attempts to penetrate the spheres of other great powers would be resented. Each would try to monopolize its sphere. In this situation, where the security of each would rest on its own relative power, the three or four great powers would regulate commercial aviation primarily in the interest of national and imperial power. The convenience and needs of the traveling and shipping public would be given only secondary consideration. National aviation rivalries in both the military and commercial sphere would provide an index of national power rivalries and a prelude to new world wars.

In world affairs security has usually taken precedence of prosperity. Political relations, though influenced by economic relations, influenced them more profoundly. The world is a political system first, and its economic system is determined by the nature of its political system. While theories, Marxian and others, have taken a contrary position, the evidence of history and the analysis of psychological attitudes seem to sustain this proposition. People will sacrifice wealth or life itself for the sake of the political unit with which they identify themselves when they think its security is threatened.

Dumbarton Oaks is, therefore, likely to prove more important than Chicago in determining the character of postwar civil aviation. If Dum-

barton Oaks succeeds, if nations and peoples become and continue confident that the United Nations can give them security and that military air power will be used to promote international stability not national aggrandizement, we may expect a steady advance in international civil aviation to serve human needs. While civil aviation might advance even if Dumbarton Oaks should fail, the advance would be frequently halted by political obstructions.

The Chicago conference made important strides forward but it left a wide opportunity for future practice and negotiation to determine the roles of private commercial corporations, of national government operations, of international corporations, of international regulations, and of public international organizations in international civil aviation. All may have important roles. The public, the governments, and the world community need more experience in this art before extensive international legislation can be feasible.

Analogies from the history of the freedom of the seas, often referred to in the Chicago conference, are to be received with caution. The situation is different and experience with the freedom of the seas discloses as much to be avoided as to be imitated. Freedom of merchant and other vessels to navigate the high seas, to transit marginal seas, and to enter foreign ports in time of peace promoted international trade and fostered competition in ocean shipping. It, however, has hampered elimination of the slave trade, protection of sea fisheries and regulation of cutthroat competition, and has promoted government subsidization of ocean lines. Eventually competition among lines maintaining regular services was greatly limited by conferences fixing rates and apportioning traffic in certain areas. Freedom of the air in times of tranquility if not adequately regulated involves more hazards to individual life and property, to national security, and to reliable commercial services than does unregulated freedom of the seas.

Freedom of the seas in time of war promoted, and was promoted by: the idea of neutral profit from the exigencies of belligerents; the notion that states not participating in a war should not judge the justice of the causes of the belligerents; the development of the international law of neutrality; and the regulation of world politics by a balance of military power. Freedom of the air will be likely to promote, and to be promoted by, recognition of the general interest against war, international organization to prevent aggression, a dynamic international law of peace, and the regulation of world politics by an effective system of collective security.

Freedom of the air seems to be a desirable goal but it implies a world organization providing genuine security to nations and adequate regulation of international air navigation and commerce.

DISCUSSION

Paul T. David: The pattern of competition in air transportation is currently undergoing major revision at the hands of the Civil Aeronautics Board. Professor Healy's paper on workable competition in air transportation thus deals with a timely problem.

The first half of his paper is an analysis in terms of input-output factors, while the second is concerned mainly with geographic patterns, homogeneity of markets geographically, and the question of the optimum number of competing carriers in a single market. This order of analysis might possibly have been reversed with some advantage, since the input-output factors acquire competitive importance mainly within the framework of geographic relationships.

So far as the input-output analysis is concerned, it is highly incomplete on the output side, since competition for passengers and cargo is not directly discussed. Passengers are by far the most important class of traffic and may continue so for a considerable number of years.

Until new equipment is available, passenger services on main routes in the United States will remain largely standardized around the DC-3 equipment which has become so familiar to most air travelers. Price policies will remain subject to the influences of a duopoly situation and a standardized service, under which there is little room for differing passenger rate policies on the part of competing carriers.

The situation may change radically when new equipment is placed in service on a substantial scale. Competing services may be offered soon in aircraft which differ markedly in size, speed, and quality and economy of accommodations. When and if passengers on trunk-line routes can have their choice between seats and berths and between such diverse aircraft as the DC-4, DC-7, Lockheed Constellation, and a supertransport comparable to the present Boeing Super-Fortress, there will be interesting possibilities for a variety of price policies. The same carrier may offer two, three, or four classes of service over the same route. Competing carriers may specialize in different classes of service.

Under these conditions the simplicity of prewar passenger tariffs is likely to disappear and there may be a period of adjustment before stable competitive price relationships are established. Cases in which different carriers charge different prices for the same quality of service or offer different services for the same price may occur with some frequency. We can reasonably hope that there will be enough price experimentation to test the full potentialities of the market.

Public policy should encourage such experimentation and should discourage the activities of carriers' associations that might arise to prevent it. The Civil Aeronautics Board has shown some willingness to consider ordering passenger rate reductions, but its hands will be largely tied by whatever cost data are on the record before it. There will be no powerful organizations of shippers to press for relief on passenger tariffs. Unless there is a period of price competition which may appear cutthroat to some observers, we may never

learn what costs and prices for passenger service are actually possible.

Postwar air cargo prospects have been the subject of unending speculation in the industry. There is no doubt that major efforts will be made to expand this part of the business as soon as equipment can be obtained. The rates charged for air express under the arrangement with the Railway Express Agency seem certain to be drastically modified if this arrangement is not discontinued entirely. Whether there will be vigorous competition among airlines in the direct solicitation of air freight remains to be seen, but it seems more than likely. If the airlines do not go after this business, the nonscheduled operators seem certain to do so. The ultimate effects upon the competitive structure of the industry cannot now be predicted, but the evolution which will doubtless take place will be interesting to watch.

The potential expansion of the total market for air transport service has attracted a flood of applications for new certificates of public convenience and necessity. The Civil Aeronautics Board is organizing its work with a view to deciding as many of these cases as possible within the next year. The postwar air map will undoubtedly differ markedly from the prewar when the major pending cases have been settled.

A number of new certificates have already been approved which will change the competitive relationships discussed by Professor Healy. Northwest Airlines, about whose position he expresses some concern, has already become the fourth transcontinental carrier by virtue of extensions to Detroit and New York. Western Air Lines has been certificated for the Los Angeles-Denver route. The angry protests of United Air Lines in this case make it apparent that a possible fifth transcontinental carrier is beginning to emerge. Eastern Airlines has been paralleled by the certification of National from Jacksonville to New York. The monopoly of American between New York and Boston has been broken by adding service over this important short route by Northeast and Eastern. Other less important decisions might be added. The industry is becoming alarmed over the possibility that the Civil Aeronautics Board may authorize too much competition. A fair appraisal of the Board's record by a competent outside student would be extremely valuable.

Professor Healy gives relatively little attention to the special problems of international air transport, but does make the comment that domestic air carriers should be kept out of international air transportation and vice versa. At the same time he apparently supports a policy of competition among United States air carriers in the international field and is opposed to permitting surface carriers to enter air transportation.

All of these issues are currently under intensive examination in cases now pending before the Civil Aeronautics Board in the form of three consolidated proceedings covering as many groups of applications for certificates. The proceedings are most advanced in the case of the North Atlantic Air Routes, which will perhaps be decided by the time this appears in print.

The recent examiners' report in this proceeding is a public document deserving of examination by anyone interested in the subject. The argument runs through several steps, the major findings of which are as follows: (1) There is room for two United States air carriers in the North Atlantic area.

(2) Pan American Airways is already established in this area and its rights must be respected. (3) If a second U.S. carrier is to survive and compete successfully with Pan American and the foreign competition, it must be strong in financial position, executive ability, experience, and size. (4) Two applicant aviation concerns without prior airline operating experience should be rejected. (5) Moore McCormack, a surface carrier applicant, is not qualified and should be rejected. (6) Three applicant domestic regional airlines, Northeast, Penn Central, and National, are not as well qualified as other applicants and should be rejected. (7) The choice lies between American, TWA, and American Export as a subsidiary of American. (8) American is prepared to waive its direct application if its acquisition of control of American Export is approved in another pending case. (9) TWA is less well qualified than American and should be rejected. (10) American Export should be granted a permanent certificate as a subsidiary of American. (11) In order to equalize access to major traffic centers in the United States, Pan American should be authorized to provide trans-Atlantic service from Washington, Baltimore, Chicago, and Detroit, as well as New York.

These conclusions amount to saying that it is not possible to provide workable competition in the North Atlantic area among United States air carriers unless a major domestic airline is certificated directly or indirectly to compete with Pan American. However, the examiners go on to say that to continue the present segregation of domestic and international air transport operations would be to maintain an artificial distinction having no basis in the physical characteristics of the industry. Certainly there is no doubt about the fact that such inland points as Chicago are extremely anxious to have direct service to points abroad. Under the agreements recently negotiated with Sweden and a number of other countries, Chicago has already been named as an airport of entry for foreign airlines.

The recommendations of the examiners' report just summarized are, of course, only recommendations. It would be inappropriate to predict the action of the Civil Aeronautics Board or of the President, who must approve or disapprove the Board's recommendations under Section 801 of the Civil Aeronautics Act.

The pending Hawaiian-West Coast Route proceeding is also of major interest. At this writing, the examiners' report on this case is not yet available. Public counsel for the Board has recommended, however, after a process of analysis similar to that for the North Atlantic case, the United be certificated to compete with Pan American between San Francisco and Hawaii. If this recommendation is eventually made effective, United will be in a position to operate a through service from New York to Honolulu, although it has disclaimed any other overseas ambitions.

The third of the three major pending international proceedings before the Board, previously referred to, groups a number of applications for service in the Caribbean and Latin-American region. This is a complicated proceeding which cannot easily be summarized and which will not be concluded for some time. Unfortunately, it will probably not provide any adequate means for dealing with the situation arising from the existing relationship between Pan

American and Pan American-Grace, generally known as Panagra. This relationship may be competitive but it is certainly not workable, since the Panagra Board of Directors is composed of two equal opposing groups who represent equal stockholdings in the company.

As a final comment on Professor Healy's paper, I should like to say that I found it most stimulating. I was particularly glad to see the emphasis upon the need for a sufficient number of air transport enterprises to provide full scope for innovation and fresh talent. We have made considerable progress along that line in the domestic air transportation of the United States. The tendency abroad has been in the opposite direction. For this and other reasons, the problem of establishing workable conditions of competition on the international air routes is full of special complexities and will continue to present major difficulties.

INTERNATIONAL MONETARY AND CREDIT ARRANGEMENTS

PEACE AIMS, CAPITAL REQUIREMENTS, AND INTERNATIONAL LENDING

By I. de Vegh
New York City

I. *Means and Ends*

The great advantage believers in Utopias have over unbelievers is that when they fail to attain their goal they can blame the others. They gallop away after the rainbow muttering imprecations against the dullards who say it is only a rainbow. When in the end they do not catch it, they say that had they but run a little faster they would have caught it: in fact, they only failed to catch it because they had to stop to argue with their less enlightened companions.

We are all agreed with respect to the war aim of total victory over Germany and Japan. We are not only not in agreement with our Allies over our peace aims, but even among ourselves we have not yet crystallized our purposes.

Perhaps our failure to formulate peace aims and policies is merely a sign of our intellectual bankruptcy; perhaps we are shrewdly concealing ulterior motives. Be this as it may, sooner or later we shall have to develop positive policies with respect to our postwar foreign relations. In the meantime we are weakening our own hand by seeking global solutions to specific problems.

The Bretton Woods Agreements are conspicuous illustrations of this kind of extracurricular venture into international affairs. They rest on a remarkable mixture of acute economic analysis and lack of strategic sense. Their adequacies and inadequacies from the viewpoints both of their professed objectives and of the interests of the United States will be the subject of my paper.

As to their professed objectives, they are of the finest. Nobody can argue against international financial and monetary collaboration. When, however, we come to the means by which this international financial collaboration is to be put into operation, we get a somewhat different picture. In fact, after we have investigated the means we shall get an entirely new light on the ends themselves and how they could be attained.

Reviewing the first incarnation of the predecessor proposals[1] I said that policy considerations must be paramount in their appraisal;

[1] "The International Clearing Union," *American Economic Review,* Sept., 1943.

whether the proposals conformed to economic ideals in an otherwise perfect or at least irrelevant world was really a secondary consideration.

More recently in two articles in a financial weekly[2] I discussed the Bretton Woods proposals in some detail. I shall briefly summarize what I said there, so as to be able to proceed with a minimum waste of time.

The two Bretton Woods institutions are essentially lending agencies. In trying to judge them, we must see, first, what the legitimate needs are for international lending of various types and, second, whether the proposed institutions fill those legitimate needs.

World demands for reconstruction and development will obviously be immense after the war. These demands will in many cases necessitate huge "additional" imports into foreign countries. Dollars to pay for these additional imports in many cases will not be available. Consequently large long-term loans will be needed. Private international capital markets will not be broad enough to satisfy demands. As far as I could see, the Bank proposal was well designed to fill the gap.

On second thought, I do not think that the argument with respect to the Bank ends at this point, and I shall take it up again later in more general terms.

With respect to the International Monetary Fund I said in substance that its authors obviously had a clear understanding of postwar foreign exchange problems but that the solution they proposed was unwise.

It seemed obvious that the international gold standard had become unworkable. The increasing rigidity of each national economy required both a freedom of movement with respect to exchange rates and a ready availability of international short-term credits, if extremely rigid trade and exchange controls were to be avoided in the long run.

Accordingly, a mechanism to facilitate the orderly adjustment of exchange rates, to promote the abolition of exchange controls, and to provide short-term foreign exchange credits, seemed desirable.

The trouble is that the International Monetary Fund is quite the wrong way to go about these objectives. Being debtor controlled it seems wide open to abuse. The counter-concessions American negotiators obtained for putting up the bulk of the gold and good currency content of the Fund seem highly insecure. Specifically, we are promised orderly methods of adjustment of exchange rates and the abolition of exchange controls on current transactions. These promises do not look as if they could be made to stick. Lastly, it cannot be in the interests of the United States to have negotiated a currency agreement without a trade agreement to accompany it. Trade controls are the broad problem of which exchange controls are only one aspect.

[2] *Barron's*, Jan. 1 and Jan. 8, 1945.

The burden of proof rests on the proponents of the Bretton Woods institutions to show that these institutions can contribute in a purposeful way to the kind of world we want. They have to show three things: that our contribution is not a subsidy, that the size of the Fund and the Bank is about right in terms of possible requirements, and that this was the best possible bargain they could strike for the safeguarding of the enlightened economic interests of the United States. I submit that proof on all these grounds is not only lacking but with the best of intentions impossible to provide.

II. *Is It a Subsidy?*

Borrowers always take a more hopeful view of a contemplated loan than lenders do; the final proof can only be obtained by granting the loan and waiting for the result.

Because of the debtor control and because of the absence of any serious penalties in the case of abuse I am convinced that the Monetary Fund at least will prove quite expensive to us in the long run.

It will stimulate exports from the United States. The exporters will get their money all right; but the Fund will not be able to recover its advances from quite a few of the importing countries that borrowed to pay our exporters. The net result will be that the national debt of the United States will have been increased in order to give some exporters a good time.

It can, of course, be argued that as compared to our total war effort, or even to lend-lease and relief, our 3 billion dollar subscription to the Fund is hardly worth arguing about. It can also be said that the rest of the world needs the advances so desperately that it is in our self-interest to make them available. But if no more than helpfulness to others is our object, why not just add appropriations to the Relief and Rehabilitation budget?

Lastly, it will be said that the Fund is a way to influence foreign monetary policies, and that even if our original contribution becomes frozen this right to interfere is worth something. I do not believe that any right to interfere will be tolerated by foreign nations once they are in possession of the dollars.

III. *The Question of Size*

Let us next turn to the question of size in terms of requirements. The Bretton Woods institutions are to be given a total capital of roughly 10 billion dollars each. Has any serious effort been made to investigate whether these amounts are adequate, or three times too large, or three times too small? Nothing has been published on the subject. Moreover, I submit that at the present stage there is no rational way to

determine what the right amount of capital for this type of institution ought to be.

Immediately after the war total long-term capital requirements will be fabulous, and the annual rate of filling them just as high as resources will permit. With each new increment to the stock of capital goods, however, further demand will diminish; so that the duration of the world-wide postwar capital goods boom will depend on the rate at which the initial capital requirements are filled. Their aggregate depends on four major factors: The rate of armament expenditures; the amount of destruction to be replaced; the expectations of society with regard to its own standard of living; the ability of society to produce at costs below existing prices.

Armaments are a capital expenditure that most countries will consider indispensable. The size of this expenditure is not determined by economic considerations.

The armaments of all the countries in the world will be affected by their degree of faith in the collective security mechanism, by their appraisal of the foreign policies of the major powers, by the absolute and relative rate of armaments of England, Russia, and ourselves. Moreover, the rate of armament of the three great powers is interdependent and rests on purely political considerations.

Until we know more about the postwar political framework we have to say that there is no way of estimating postwar armament requirements, nor postwar capital imports necessitated by the level of armaments of any given country, nor whether we should make long-term loans available that might indirectly help certain countries to gain armaments.

Capital requirements due to the destruction to be replaced will vary in size according to what might be described as environmental conditions. For example, in the case of Germany the Allies will probably try to prevent reconstruction; consequently capital requirements will be less than what might be termed destruction parity. By contrast technological advancement will be incorporated in the reconstruction of British industry on a scale not hitherto attempted.

The growing familiarity of the masses in England with living standards in the United States and in the Dominions will result in replacement of destroyed housing and public utilities by structures of greatly improved quality and performance. To that extent this point shades over into our next major determining factor.

The expectations of a society with regard to its own standard of living and the institutional factors surrounding the social-political aspirations of society have a very great effect on total capital requirements. The people of England, for instance, will certainly demand a

standard of living higher than ever before and they will demand the capital investment, public or private, that is necessary to produce it. On the other hand, the unhappy people of Greece, Poland, and other devastated countries on both sides, while they will also be longing for something better, will probably feel that the limits of their reasonable aspirations are very much below their own prewar standards. They will accept, as they will have to accept, after all, the consequences of the devastation of the war.

How is the Reconstruction Bank going to mete out justice between all the claimants for long-term capital bursting in on it at once? How will it decide which country should have which of its industries rebuilt first, which country should have its standard of living restored to what level first? It obviously cannot satisfy all claimants at once. It cannot even lend its funds all at once without promoting a world-wide inflationary boom.

The ability of a society to produce at costs below existing prices affects capital requirements in two ways.

The first is technological. Obvious illustrations can be found in the development of new industries or new mineral deposits. The more opportunities of this nature there are in a country, the greater the capital requirements.

The second is the cyclical factor which works through cost-price relationships. If in the course of an upturn the rent structure in New York City becomes such as to warrant the building of additional skyscrapers, additional skyscrapers will be built until the rent structure ceases to sustain further construction.

We know from the history of the economic development of the interwar period how powerful these cyclical factors are with respect to long-term capital requirements, and how the age of existing capital goods affects the amplitude of cyclical swings. If the Reconstruction Bank is so managed as to flatten the cycle, it will be wildly unpopular. If it amplifies the cycle, it will be disastrous.

With respect to the order of magnitude of short-term international loan requirements the situation is even worse. The global solution of creating one great big International Monetary Fund in which everybody has borrowing quotas is wholly arbitrary. Compare the quotas of countries like Russia and China, for example, with those of countries like France. There is no telling what the foreign trade of China will be after the war or how it will be organized. With respect to Russia, it is clear that such foreign trade as she will have will be conducted by government monopolies. How can these two countries together require three times the short-term foreign exchange credit quotas of France and the French Empire? In fact, how can countries like Russia and China

be asked to participate in a scheme that essentially presupposes a capitalist order of things, with capitalist rules of good behavior on the subject of exchange rates and exchange control?

I submit that the amount of short-term credit various countries will need is quite incalculable in any global terms. Individual arrangements between ourselves and Western European nations might make sense. The latter used to share our own liberal capitalist ideologies and might be persuaded into sharing them again after the war, provided we give them adequate political guarantees in return. The blanketing of everybody under one umbrella is a strategic weakness of the whole proposal.

IV. *The British Problem*

We are not going to get very far in the analysis of capital requirements so long as we approach the problem in additive terms. Perhaps a more concrete picture can be obtained if we concentrate on the future capital requirements of one country. Great Britain is the most important country in our international economic relations. What are the major elements in her future foreign capital requirements? Are they typical of other countries?

The British problem is not one of short-term dollar resources. By now she must have accumulated several billion dollars from a variety of sources including expenditures by American troops and by the quartermaster corps in England, in the Colonial Empire, and in other parts of the sterling pool, and the continued gold-mining activity of the sterling area. In other words, she has the monetary reserves necessary for current operations. Her problem is one of long-term capital imports for reconstruction, and for new investment, as well as for the funding of the war debt which she has incurred in the form of sterling balances.

There is a British capital problem and a British payments problem. It results largely from the high costs of the two World Wars, and from inefficient production techniques. It is a major concern of the United States to have the British problems solved—and solved in a manner that is not inimical to American interests.

With respect to the war debts that Great Britain has incurred, the solution is not far to seek. Obviously nobody will ever make an attempt to collect those of the first World War. Lend-lease is not recognized as a debt in monetary terms. Lend-lease evidently entitles us to insist that British economic arrangements of the future should be compatible with American national interests, but anything else we get out of it will be a windfall.

The British war debts incurred in India, Egypt, Argentina, and the Dominions, now consisting of blocked sterling balances in London, will have to be funded. Contrary to occasional suggestions from British sources, these blocked sterling balances should most certainly not be

handled in the good old system of Dr. Schacht. As we recall, he used blocked reichsmark balances to force countries to buy from Germany by leaving them no other way to get their money back.

England needs long-term capital, and also American know-how for reconstruction, modernization, and expansion of her productive plant. In other words, she needs large direct investments by American corporations in England and in other parts of the British Empire. Such a policy of economic co-operation between our two countries, such a mutual mingling of interests, is an essential of postwar international economic collaboration. Since, however, a large part of British production, including the raw material production of the Empire, is cartelized in one form or another, it will be necessary to permit foreign subsidiaries of American corporations to join cartels and other agreements that are legal in Great Britain and in the Colonial Empire.

Most of all, England needs an alleviation of the crushing burden of armaments. Perhaps more than any other single factor it has been her need to preserve her position as a first-class military power that kept her on the verge of insolvency in international payments by and large since 1916. If she had only the industrial base of the mother island itself to fall back upon, she would be in a less favorable position after the war than ever before to compete in armaments with the two remaining first-class military powers.

There are only two ways out: One is for us to relieve England of some of her armament burdens and for us to undertake large commitments for the future defense of the British Empire. The other is for the English to create a sufficiently broad economic base for their armament requirements of the future; this can only be accomplished by consolidating the Western European nations, and their colonial empires, into one large economic unit, with close political ties and a strongly monopolistic economic organization.

This is an outstanding example of how impossible it is to segregate political and economic factors in the organization of peace or to isolate monetary and financial factors from other considerations. The economic system, the financial system, the monetary system that will be workable if one alternative is adopted will be completely unworkable if the political decision falls the other way. The basic weakness of the approach of the Treasury is that it hampers our freedom of action in the monetary sphere by committing us to the proposed agreements, without having any knowledge of the eventual political solutions.

V. *The Interests of the United States*

Let us look at this somewhat further. We are, in fact, committed to the defense of Western Europe against all comers. It can only be to our advantage to make our political commitment open and mutually

binding. Even leaving the political advantages aside, from an economic point of view it is obvious that we can well afford to make major commitments for the defense of the British Empire, provided we obtain economic entry into the Empire on equal terms and provided future Anglo-American economic relations are based on genuine partnership.

Conversely, it is a vital concern of ours that the problems of England and our Western European Allies should not be solved along isolationist lines. The creation of a new, enlarged sterling area, thoroughly cartelized, and cemented with political understandings, is inimical to American interests. But its creation cannot be prevented by currency agreements. The unity of this sterling area will rest on deep-seated commercial, investment, and even political and ideological ties. The sterling currency base is merely an outward expression of this deeper cohesion. It is a result, not a cause. The way to cope with it is not on the currency level, but on the level of postwar political understandings and of postwar understandings with respect to trade and investments.

Once the right political solutions for our future relationships to our Allies are found we can proceed to the creation of the mechanisms that are best suited to put those major policies in operation. Until we find these major political solutions and basic understandings with respect to economic ideology and practice, currency agreements are meaningless. There was no way for our Bretton Woods delegation to make a good bargain for us, because the bargain was for the wrong thing altogether.

We have to find the true communities of interest between ourselves and our Allies. We have to base comprehensive agreements with each one of our Allies, on the ascertained communities of interest. We have to create appropriate mechanisms to keep these agreements functioning. In order to reach the basic agreements we desire we have to preserve our bargaining power.

Insofar as the principle of the thing is concerned it does not even matter how we view the interests of the United States. We can identify the interests of the United States with the general interests of mankind, as we are occasionally prone to do, or we can view them in the narrowest terms. The bargaining power of our negotiators will be of paramount importance in either case. It is up to us to use that bargaining power to promote our aims, be they thoroughly selfish or enlightened or wholly altruistic; we shall certainly not attain any desired ends without possessing bargaining power.

Our power to lend is our last *economic* means of bargaining with our Allies. The Bretton Woods agreements give away this last remaining economic bargaining asset—our ability to extend credits—in return for paper concessions that serve no useful purpose.

Once we have committed our subscription of almost 6 billion dollars to the Bretton Woods institutions we have given up the bargaining power this sum represents. Any future economic concessions our Allies may make to our point of view will be done as favors to us and not as the outcome of a realistic, mutual bargain.

After the first World War the United States, England, and the European neutrals believed that a return to nineteenth century capitalism was still possible. They tried to base that return in the economic sphere on a slightly streamlined reinstatement of traditional methods, without paying much heed to the substance of the social and political changes caused by the war.

Bretton Woods tries to provide the kind of streamlining to enlightened monetary thinking of the interwar period that the Dawes and Young Plan era tried to apply to its Victorian predecessors. This attempt is contrary to common sense.

Any approach that presupposes more or less uniform standards of behavior between forty-four nations is one that disregards the most fundamental fact about the postwar world. The two wars resulted in shifts of world productive capacity and in institutional changes that are at least in part permanent. This redistribution of the world's resources and remodelling of its institutions is, however, purely haphazard. There is no organizing principle underlying them, except that the big have become bigger and the small have become smaller.

Moreover, there is no common ideological ground between the various groupings of countries that will eventually emerge. This absence of an ideological community means that there are no common beliefs on which to base global postwar agreements. Ideological discrepancies are decisive in keeping nations apart. Means and ends that seem reasonable and desirable in the United States may not be so in Russia or in England or in Spain.

If we are to promote peace and stability by economic means, we obviously have to adjust our domestic economic policies in various ways to the requirements of foreign countries with which we seek agreements. Once we have made our adjustments, we can reasonably aspire to establish intimate ties with those foreign countries with which there exist ideological affinities, a common political and economic outlook, and/or common economic and political interests. These are primarily the British Empire, and the Western European nations with their colonial empires. Co-operation with these countries—indispensable as it is—has to be based on far more tangible and far more comprehensive commitments than we have obtained at Bretton Woods.

THE COMMERCIAL POLICY IMPLICATIONS OF THE FUND AND BANK

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I. *Bretton Woods versus Exchange Control*

Through application of direct exchange control by individual countries to foreign trade a considerable degree of stability in international economic relations might be achieved without the institutions proposed by the Bretton Woods agreements. Resort to direct exchange control, however, would perpetuate practices that are now recognized to be economically restrictive as well as politically objectionable. The Bretton Woods agreements would promote stability in international economic relations, although they could not of themselves accomplish it, by means which would avoid the harmful results of unilateral exchange control. Herein lies the significance of institutions proposed in the agreements.

The International Monetary Fund is an instrument intended to limit exchange control to the regulation of capital movements[1] and thus to free international trade from its restrictive influence. For the purposes of this discussion the International Bank for Reconstruction and Development may be viewed as a necessary complement of the Fund, although it might perform useful functions even if the Fund should not exist. Without some such arrangement as is provided by these institutions, exchange control extending to foreign trade transactions would in all probability prove to be unavoidable.[2]

The desirability of avoiding the long-run survival of all-inclusive exchange control systems can be touched only briefly in this paper. The political aspects of the problem are at least as significant as its economic or technical aspects. Exchange control systems lead to bilateral monopoly and bilateral oligopoly constellations on the level

[1] Unfortunately a tendency toward flight of capital to the United States must be anticipated; from the capitalist viewpoint the United States will continue to be the most secure (or the least insecure) country. Consequently exchange control to regulate capital movements will be unavoidable. Professor Viner undoubtedly is right in saying that it will be difficult to tell when control is limited to capital movements and when it is extended to current transactions. We share his misgivings about any kind of exchange control. But continued political insecurity on the European continent and in large areas of Asia is a fact that will have to be faced. Cf. Jacob Viner, *Two Plans for International Monetary Stabilization*, reprinted from *Yale Review*, Autumn, 1943 (Yale University Press).

[2] It seems to us that Professor Williams' "key currencies" approach is *intended* to lead to arrangements of the same type except that the necessity of maintaining larger reserves in certain specific currencies would be more emphasized. Cf. John H. Williams, *Postwar Monetary Plans and other Essays*, Pt. I (Alfred A. Knopf, 1944); also the same author's contribution to *International Financial Stabilization, A Symposium* (New York: Irving Trust Co.).

of foreign trade policy. These in turn result in the exploitation of certain countries by others and in frictions and deadlocks in the trade relations of partners of approximately equal strength. It is likely that in the long run, even countries with a high bargaining power would lose by maintaining exchange control systems. They may exploit weaker partners so far as the terms of trade are concerned, but in doing so they may bring about a sufficient reduction in the total volume of trade to be losers on balance. Although it is impossible to prove that exchange controls result in a smaller volume of trade, the exchange control systems of the past have been clearly characterized by strongly restrictive tendencies.[3] There is not much reason to believe that these tendencies would be reversed in the future. Conflicts of interests between countries of approximately equal strength would of themselves tend to restrict the volume of foreign trade between them.

The Fund and the Bank, even under the management of officials free to adopt the most reasonable policies, could not by themselves preclude the long-run survival of exchange control systems extending to foreign trade transactions. Restoration of a well-organized international capital market in which there is considerable sensitivity to interest-rate differentials also would be essential. Unfortunately, it is unlikely that such a market will emerge from the postwar environment in the near future. "Stability without exchange control" in the past has depended largely on sensitiveness of the international capital market.[4] When interest-rates in different countries changed in relation to one another, the international movement of capital tended to keep balances of payments in equilibrium, or to make slow and gradual adjustments possible. The International Bank for Reconstruction and Development will be a very imperfect substitute for a sensitive capital market, but at least it will serve as a substitute. The Monetary Fund itself could merely cushion the impact of disturbances in foreign trade and give the various countries time to start the process of adjustment.

Changes in the magnitude and direction of capital movements have always been essential parts of the adjustment mechanism. Complete adjustment through the flow of goods and services could scarcely be relied upon, even with occasional variation in exchange rates and reasonably flexible cost structures within the different countries. The Bank would provide one of the essential links of an orderly chain of adjustment. By granting and by guaranteeing loans it would be in a position to direct international capital movements within certain limits. But presumably the Bank's lending operations would be small in

[3] Howard S. Ellis, *Exchange Control in Central Europe* (Harvard University Press, 1941), pp. 315 ff.

[4] William Adams Brown, Jr., *The International Gold Standard Reinterpreted* (New York: National Bureau of Economic Research, 1940), Ch. 21 (in Vol. II, Pt. IV).

comparison with the international flow of capital which would develop in a stable and well-integrated world economy where the feeling of long-run security prevailed. It is difficult to conceive that stable and orderly internal conditions will prevail in Continental Europe and Eastern Asia for a long time to come. Meanwhile guarantees in excess of moderate (although possibly reasonably large) amounts will be opposed by public opinion in the United States because of the obvious political risks. Also it will not be taken for granted in the United States that the outflow of capital will continue for a practically indefinite period. The implications of repayment by debtor countries are now being discussed and understood more generally than ever before, and the magnitude of the import problem arising after the cessation of the outflow will be one of the determinants of the politically feasible amount of "directed" or "guaranteed" lending. Such a situation, while clearly preferable to no provision for the orderly movement of capital from country to country, is not by any means the reproduction of the sensitive capital markets of the late nineteenth or early twentieth century.

In these circumstances the attempt to set up an equilibrating mechanism without exchange control for current transactions may prove to be unsuccessful. But the attempt should not be abandoned. The part of wisdom now is to examine the conditions under which a mechanism such as that proposed at Bretton Woods would be effective even in the circumstances that are likely to exist in the postwar world and to do our best to make reality comply with these conditions.

II. *Four Conditions*

The Bretton Woods agreements presuppose in the first place that peaceful political relations between the major powers will be assured. The existence of international economic institutions such as those proposed at Bretton Woods diminishes political as well as economic friction between participating nations it is true, but it would be unreasonable to expect them to remove all sources of political complications. The United States is the only power that could conceivably keep itself in a state of preparedness for war—the too frequent outcome of political complications—without resorting to all-out exchange control. Even the United States would have to control exports and the movements of foreign owned balances, but it might not have to ration imports through exchange control. Other countries, however, would have to adopt comprehensive methods of exchange control by which imports could be rationed and directed toward industries considered vital to preparedness for war. The United States would then find itself under indirect pressure to adopt similar measures. For a country that

fails to control its imports buys on unfavorable terms from countries which apply exchange control to their foreign trade. Should the peace to come not be generally regarded as durable, rigorous methods of exchange control would probably stay with us and these would apply to current transactions as well as to capital movements.

Secondly, the maintenance of a high level of employment in the leading economies is a necessary condition of the restoration of "normal" and reasonably free international economic relations. In an economy with a chronic tendency towards underutilization of its resources, the temptation to produce Multiplier Effects by means of foreign trade usually becomes irresistible. Currency depreciation produces a Multiplier Effect coupled with effects on the terms of trade that depend on the relative elasticities of the demand and supply functions of export and import goods; increased tariff rates tend to improve the terms of trade in addition to producing a Multiplier Effect; and exchange control may be used with even greater efficiency to achieve these two objectives simultaneously. All these methods tend to become self-defeating because other countries are likely to respond by also adopting them. Furthermore, they are apt to result in a type of economic warfare by which the volume of international trade is substantially reduced. Nevertheless, chronic depression tendencies are practically certain to call forth these policies and it is likely that, with the passing of time, the milder varieties would give way to the more extreme ones.

Some of the opposition to Bretton Woods seems to be based on the notion that, unless autonomous co-ordination of foreign trade policies with domestic employment policies were permitted, a tendency towards underemployment would have to be taken for granted in such countries as Great Britain.[5] To us it appears likely that, in the industrially advanced economies, domestic fiscal policies will be used in a manner such as to counteract persistent depression tendencies. There might develop a considerable controversy in these countries concerning the extent to which the full-employment policies should be based on fiscal and on other methods respectively.[6] but it now seems unlikely that many persons in the industrially advanced countries should consider the fiscal methods of maintaining high employment more evil than unemployment itself. In totalitarian countries there probably will be no unemployment. Consequently we do not see much justification in discounting Bretton Woods with the explanation that it presupposes a high level of employment in the leading economies. But it was well

[5] Ultimately Mr. Balogh's and Mr. Schumacher's views rest on this conception. Cf. *The Economics of Full Employment* (studies prepared at the Oxford University Institute of Statistics, Basel Blackwell, Oxford, 1944), Pt. V; and W. F. Schumacher, ***Export Policy and Full Employment*** (London: Fabian Publications, Ltd.).

[6] Most of the other methods conceivable fall in the category of "cost-price policies."

to include provisions in the agreement on the basis of which the Fund might approve abnormal currency measures during periods of sudden and violent economic change. In these periods certain countries might find it impossible to offset depression tendencies by measures appropriate for "normal" periods. Provision is made for emergency measures in Article VIII, Section 2, which prohibits the imposition of restrictions on transfers for current transactions, but adds that the prohibition applies only if these restrictions are made without the approval of the Fund. Furthermore, the scarce currency provision[7] (Article VII, mainly Section 3) also may operate as a safety valve in crises. These provisions do not contain statements to the effect that they can be applied only for passing periods of emergency; yet the arrangements of Bretton Woods would lose most of their significance if the provisions in question were to be applied permanently.

Thirdly, the objectives of the Bretton Woods agreements can be achieved only if, in the event of permanent disequilibrium, the orderly adjustment of exchange rates is made possible. Flexibility of rates must not become a cloak for "aggressive" and competitive currency depreciation, nor should it become a measure by which international capital movements are reduced to an intolerably low level. But complete rigidity would undoubtedly perpetuate disequilibria to the breaking point. What the "correct" measure of flexibility is can of course not be decided on the level of general analysis. One can at best hope that in specific instances the Board and the directors of the Fund will use their powers wisely. However, there exists a real danger that it might be difficult to navigate between two equally dangerous reefs.

The dangers of extreme rigidity are obvious although they are disregarded by those advocating a return to rigid forms of the gold standard.[8] It is possible, however, to be misled into the opinion that frequent and substantial changes in exchange rates would not impede capital movements seriously as long as the Bank guarantees the loans made by creditors. Such an opinion would probably prove erroneous. The risks of foreign lending limit the activities which the Bank will be able to undertake without losing the support of public opinion in the creditor countries, especially in the United States. If the risks, including those of windfall losses, grow, the limits are likely to become narrow.

Last but not least it is essential that the adjustment to disturbances

[7] More precisely, the provisions relating to the apportionment (rationing) of currencies the stock of which in the Fund threatens to become exhausted.

[8] Cf. E. W. Kemmerer, "The Future of the Gold Standard," *Commercial and Financial Chronicle*, Apr. 1, 1943; and the same author's contribution to *International Financial Stabilization; A Symposium* (Irving Trust Co.). Cf. also Benjamin M. Anderson, "Postwar Stabilization of Foreign Exchange," *Economic Bulletin*, May 11, 1943.

of the equilibrium should not be impeded by commercial policy. This always has been an essential condition of a reasonably stable development in the field of international economic relations; the thesis of the present paper, however, is that the significance of this condition will be greater than ever in the political and economic environment of the postwar period. As was pointed out before, it is scarcely possible that disturbances would be overcome exclusively by adjustments of the balances of goods and services of the single countries. Consequently it is necessary to develop institutions promoting capital movements. But it also was pointed out that it would be unreasonable to expect the revival of a highly sensitive and elastic international capital market such as existed in the period preceding the first World War. This means that the significance of adjustments within the flow of goods and services will have increased considerably.

Pessimists might maintain that this is another way of saying that the situation is hopeless and that we should concentrate on developing the methods of rigorous exchange control to avoid violent and chronic disequilibria. In this paper we attempt to avoid both pessimism and optimism. We try to *state* the conditions under which a reasonable degree of freedom might be restored in international economic relations. It then becomes necessary to emphasize that such an objective requires considerable *adjustability* of the items making up the flow of goods and services, especially because the adjustability of capital movements will be diminished as compared to past periods of free and relatively stable development. Increased adjustability of the flow of goods and services in turn presupposes not only the possibility of altering exchange rates in the event of long-run disequilibrium,[9] but also the avoidance of such commercial policies as prevent the adjustment of balances of trade to changing conditions.

III. *Commercial Policies and the Adjustment Mechanism*

It seems appropriate to distinguish at this point between the case for free trade *in general,* and the case against certain types of protectionism *as they bear on our present problem.* The modern version of the case for free trade in general should stress the fact that the "domestic" objectives which in certain circumstances *may* be achievable by means of protectionism can be accomplished by other types of intervention as well. The thesis that protectionist devices always exert an adverse influence on all countries concerned is valid only on strictly "classical" assumptions (or rather on the assumptions implied by the classical economists). But whenever protectionism affects certain economic variables—e.g., the level of domestic employment—

[9] This means avoiding the rigid forms of the gold standard.

favorably, it does so because the device in question represents a variety of taxation-plus-subsidization which, in the given circumstances, exerts a favorable net influence.

Direct measures applied to the domestic economy through taxation and subsidization, or subsidization alone, should lead to similar results without violating the interests of other countries *to the same extent*. For taxation or subsidization bears on international economic relations directly only in the cases in which foreign trade commodities are being taxed or subsidized. In the cases in which the objective sought by protective devices is that of calling forth the domestic production of specific commodities, there might be no difference between accomplishing the objective by protection or by direct subsidization (or taxation).[10] But where the objectives of protection relate to the domestic situation as a whole—e.g., where a rise in employment or a change in income distribution is sought—the taxation or subsidization could be spread over substantial segments of the economy and it would not affect international economic relations as directly as protection does. Since protective devices frequently serve the second objective, a good general case can be made for avoiding them regardless of the merits and deficiencies of the classical free trade argument. The argument assumes of course that taxing the foreigner, instead of being a desirable objective, is one of the distinctly harmful by-products of devices aimed at another objective such as a Multiplier Effect.

However, this type of reasoning relates to the problem of protectionism in general. It sheds at best some indirect light on the relationship between the objectives of Bretton Woods on the one hand, and the nature of commercial policies on the other. These two problems overlap but nevertheless are logically distinct.

Import duties are harmful on general grounds, and it may also be maintained that the objectives of Bretton Woods can be more easily accomplished at a lower than at a higher level of tariff protection. In this sense the two problems overlap. Yet an amount of protection that is distinctly harmful on general grounds may still be compatible with reasonably stable and expanding international trade relations. It would be impossible to establish the proposition that Bretton Woods is compatible with tariff rates of some definite height and incompatible with tariff rates exceeding that definite level.

What truly is incompatible with the objectives of Bretton Woods is a commercial policy placing serious obstacles in the way of the adjustment mechanism. Obviously, it is impossible to state in general terms what is to be meant by policies impeding the necessary adjustments. A given measure of protectionism may not interfere with the adjustment mechanism in certain periods and it may do so in subsequent

[10] Subsidization of domestic industries, or taxation of foreign goods.

periods. If this were to be taken into account, one might arrive at the conclusion that it is necessary to force all countries participating in the Fund and in the Bank to revise their commercial policies whenever an international organization should rule that these policies impede the processes of adjustment. This clearly could not be accomplished. But in the past "impeding" commercial policies very largely assumed the form of actual upward revisions of protectionism, rather than of a mere refusal to reduce the degree of protection. Impeding policies have largely been aimed at preventing the inflow of specific goods by duties and quotas when an orderly process of adjustment to changed conditions would have required larger imports. They also have been aimed at forcing an increased outflow of specific goods by newly adopted or by increased subsidies in order to avoid shifting resources from fields of relative overproduction.

Very substantial progress would be accomplished if merely the perverse elasticity of protectionist devices were eliminated. Duties and subsidies tend to exhibit this perverse elasticity with respect to the requirements of the international adjustment process because the adjustment to changed conditions always works hardships on specific segments of the economies concerned. Avoidance of the adjustment proper through "adjusting" tariff rates and subsidies brings benefits to specific segments of the economies directly and in an obvious fashion, while the harm it does to other segments of the same economies and to the welfare of the economies as a whole is both less direct and less obvious.

Substantial reduction of protectionism as compared to the level of the early nineteen-thirties[11] should be regarded as an important general objective of commercial policy. Abandonment of the practice of *changing the degree of protection so as to prevent adjustment* is, however, an indispensable condition without which the objectives of Bretton Woods cannot be realized, even if these objectives are modestly conceived. Could we count on a highly sensitive capital market which, in the event of disturbances, would produce compensating movements on a large scale, it still would be dangerous to weaken that part of the compensating mechanism which operates through adjustments within the balance of trade. Under the conditions that will presumably exist in the postwar world such a policy would be fatal.

IV. *An International Trade Organization*

The Bretton Woods agreement should be supplemented by provision for an international organization that will be concerned with problems of commercial policy. In the framework of such an organization an

[11] That is, as compared to the period preceding the establishment and spread of exchange control systems.

attempt could be made to co-ordinate the full employment policies of the participating nations and also to carry out a "reciprocal trade agreements" policy on a multilateral basis.[12] It should even be possible to achieve a substantial initial reduction of protectionism if action were taken before the restoration of prewar vested interests. The most urgent need, however, is that upward revisions of the base level should be made dependent on the consent of an international organization. There is no logic in depriving countries of the right to alter exchange rates and at the same time leaving them free to adopt commercial policies that would create or perpetuate disequilibrium.

Approval of an upward revision of protective levels, however, should not require unanimity, or even the consent of all the Great Powers adhering to the organization. Implicit protectionist devices that are not susceptible to international control will be adopted by some countries having rigid internal organizations suitable to the development of such devices.[13] Believing, rightly or wrongly, that such devices are essential to their interests, these countries would naturally be averse to having the more freely organized countries obtain international consent to explicit retaliatory action. The more totalitarian its internal organization, the easier it is for a country to adopt implicit measures that are tantamount to protectionist devices; any formula prohibiting this variety of protectionism, or the corresponding implicit variety of exchange rate depreciation, would be much too general to permit enforcement or even precise interpretation. Consequently, abuse of this power cannot be prevented by legal arrangements. It could be prevented by good will and by the realization of the fact that other countries are in a position to retaliate.

Much less than unanimity of votes should be required for the approval of higher protection in order to place the comparatively freely organized countries in a position to defend themselves against implicit changes made by the countries with rigid internal organization. A simple majority might conceivably be a satisfactory solution if the distribution of votes were not very different from that contemplated for the Fund or for the Bank. Competitive upward revision might, it is true, be carried out in subsequent steps by *ad hoc* majorities differently constituted. Nevertheless the likelihood of trade wars would be much less than if no international trade organization existed and every country were free to sabotage the adjustment mechanism by raising the level of protection.

[12] Cf. *World Trade and Employment* (the Committee on International Economic Policy in Co-operation with The Carnegie Endowment for International Peace, Report from The Advisory Committee on Economics, June, 1944).

[13] In addition to the Soviet Union, several major and many minor powers might fall in the category.

The foregoing suggestions concerning how to avoid the dangers outlined in this paper are tentative. It will no doubt require extensive study and development before consensus is reached on methods of approach. But there is no escape from the fact that effectiveness of the international monetary mechanisms now contemplated would depend in large measure on the success with which countervailing protectionist devices were eliminated. Nor is there escape from the fact that protectionism would be more disruptive to international trade after this war than it was in former periods when there was a sensitive international capital market. Adjustments in trade balances through the flow of goods and services become increasingly important to stable international economic relations when less reliance can be placed on spontaneous capital movements in response to changing differentials in interest rates. The alternative to international action to obtain stability in trade relations is direct exchange control, with its economic restrictions and political abuses. If the basis for lasting peace and for stable and expanding world trade is to be laid, there should be no hesitation in choosing which alternative to accept.

THE FUTURE INTERNATIONAL POSITION OF THE UNITED STATES AS AFFECTED BY THE FUND AND BANK

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The war has increased the exports of the United States from an average of 3 billion dollars during the years 1936-38 to the highest volume in history—more than 14 billion dollars in 1944, exclusive of supplies to American troops abroad. In the same period imports rose from an average of 2.5 billion dollars to just under 4 billion. The enormous export surplus of more than 10 billion dollars in 1944 represents an economic triumph in supplying our allies with the means to prosecute a total war. At the same time, however, this extraordinary export balance of the war years will raise major problems of readjustment in the ensuing years of peace.

It is apparent that even if a 14 billion dollar export trade could be maintained after the war, extensive shifts in the character and direction of that trade would be necessitated. Half the wartime exports are munitions; and the remaining half is composed of industrial and agricultural products that are going in abnormal volume to our fighting Allies and in reduced volume, or not at all, to other parts of the world. Since the wartime trade cannot be continued undisturbed, since at best there must be a great period of change and readjustment, there is little reason to aim at maintaining a 14 billion dollar trade in order not to upset the *status quo*.

Such a volume of trade could be maintained only by heroic measures in any case. Foreigners unable to pay for 14 billion dollars a year of American goods from the proceeds of their merchandise and service exports to us or the dollars that American investors were prepared to lend them would have to be given the difference. This difference might amount to 5 billion dollars or more. It is inconceivable that Congress or the American public will be prepared to give such sums year after year to the foreign world. Even a few billion dollars would be hard to get appropriated except for a strictly temporary purpose. Under war conditions the vast outpourings under lend-lease are possible; but as this country looks ahead to the postwar period its concept of giving shrinks to the 1,350 million dollars which has still to be contributed in full to UNRRA. And this is probably as it should be. In a life and death struggle in which resources are pooled for instant action on the many battlefronts and in which industry operates under direct international controls, lend-lease is a fitting instrument. But after the war as nations again assume full responsibility for their own economies and international controls cease to dominate them, it is probable that they will

make a more constructive use of the assistance they receive if it is made available to them in the form of loans rather than of outright gifts. Knowledge that the loan costs something and that it must be repaid is a steady influence toward selection of productive projects. Thus the wariness of the American people lest they play Santa Claus on an unlimited scale is probably a good thing for the world.

But whether good or bad, the fact is that outright gifts of 5 billion dollars or more a year will not be forthcoming on the grounds of foreign needs. The only argument that might lead the American people to give on a vast scale is that such action is necessary to make jobs for our own people in the United States. If to preserve our agriculture we must subsidize cotton or wheat exports, if to maintain the unprecedented shipments of industrial goods and the jobs that lie behind them we must make loans on which we do not expect repayment, then the subsidies and so-called "loans" may be forthcoming. In effect they would be gifts to foreigners.

Closely akin to giving from the American standpoint is the exchange of our goods for gold. The public does not so regard it. In the technical sense we are fully paid. But in the economic sense we are not paid at all unless subsequently we can sell the gold back to foreigners for their goods. We have no need for the gold as such. Foreign countries do. Large reserves would help give stability to their monetary policies in the face of deficits in their international balance of payments. But the United States already has all the gold it can possibly need for that purpose. Nor is the gold required for domestic circulation; nor for reserves against Federal Reserve notes and deposits except to the extent that the government chooses to impose requirements to limit the expansion of Federal Reserve credit. England, Canada, and other countries are operating today without any required gold reserves whatsoever. Hence additions to our stock of gold are of advantage to us only if we can presently turn them back for foreign goods and services. A policy of maintaining an export surplus financed by gold year after year is a policy of giving goods to the world even though the individual exporters concerned are paid and fully satisfied.

As compared with outright giving, however, it has the defect that continuous drafts on foreign gold reserves may prove highly disturbing abroad.[1] They may start a series of deflationary or other defensive

[1] There is a further drawback to gold purchases as a counterpart to our export trade in the fact that they are ordinarily financed by the Treasury through issuing gold certificates to the Federal Reserve banks. Expenditure of the resultant deposit adds to member bank reserves and the money supply without adding anything to the power of the Federal Reserve authorities to offset the effects. Gold purchases are not necessarily financed in this way. In 1937 large gold acquisitions by the Treasury were financed out of tax revenues and funds borrowed from the market. But the normal method is to issue gold

actions. And the whole procedure is necessarily limited to the amount of reserves that foreign countries are able or willing to lose. When the limits are reached, the exports must stop. An export surplus financed by continuous drafts on foreign gold reserves is inherently precarious and unstable.

But policies that involve subsidies to foreigners, unrepayable loans, or drafts on foreign gold may nevertheless be urged on the ground that they are necessary to maintain American employment. The basic difficulty with this argument from an economic standpoint is its assumption that foreign expenditure is more effective than domestic expenditure. It is not. Expenditure within our own borders equivalent to the foreign subsidies would produce the same volume of employment and would, in addition, preserve for our own people the full product of their employment. There is no virtue in putting dollars with which to buy our goods into foreign hands rather than American, unless it be the short-run virtue of maintaining the *status quo* and avoiding readjustment. It is always easier to maintain employment where it happens to be in existing export lines than to contract export industries and expand domestic. In a depression such as the thirties this may well be the dominant consideration. But as we look ahead to the next decade there is no possibility of maintaining the *status quo* of our wartime exports. We are in for sweeping readjustments in any case. It will be as easy for this country to adjust to an export surplus financed by productive capital outflow as it will be for it to adjust to a larger export surplus requiring subsidies, unrepayable loans, or gold purchases—provided the equivalent of this latter type of expenditure is made available at home. And it can be made available at home by means that are no more inflationary than those required to put the additional dollars in the hands of foreigners.[2]

This statement on the economics of the problem would probably win the assent of economists generally. But many who would accept it as a piece of economic analysis would in the same breath assert that the politics of the matter are quite different. The public and Congress will accept gold readily or grant subsidies to save an industry if our international position gets out of balance; but if the international position is brought into balance, there will be no willingness on the part of Congress to spend a corresponding amount at home to combat unemployment. Insofar as this argument rests on the reluctance of Congress to increase the public debt, it applies equally to export subsidies and foreign loans on which repayment is not expected. Both would

certificates, whereas the normal method of financing other expenditures is less inflationary in character.

[2] See footnote 1.

tend to swell the debt. But the conversion of foreign gold into dollars would not. It is here that it can perhaps successfully be argued that the public which will readily accept gold in payment for surplus exports, will not as readily, in lieu of the surplus exports, distribute a corresponding amount of domestic purchasing power—even though to do so would maintain the same volume of employment and better the American standard of living. The *political* economist is dubious of getting the country to accept the more rational alternative. He will settle for gold. But the precarious and disturbing character of an export surplus financed by gold has already been noted. There is, therefore, small comfort in the fact that it may be politically feasible. As we look ahead to the forties and the fifties we must build on a more solid foundation.

Foreign Lending Policy

It is the thesis of this paper that the United States can attain a volume of exports appropriate to its productive capacity within the framework set by its willingness to buy foreign goods and services and to make productive loans. Immediately after the war foreign needs will be urgent. The United States economy raised by the war to a high pitch of productivity and physically undamaged will be in the best position to supply those needs. American capital will be abundant. There is a clear case for large American loans abroad in this period.

At the very outset grants will be needed to meet the most pressing consumer needs, and UNRRA has been created for this purpose. It has already been noted that the American contribution has been fixed at 1,350 million dollars. But vastly more than this will be required to service productive enterprise; i.e., to restock and re-equip industry in the liberated areas and to expedite the process of industrialization in other areas of the world. Quite properly these additional amounts are being conceived in terms of loans rather than of contributions. Consumers in distress cannot be expected to repay; but industries that are building up their productive powers and governments that are laying the basis for greater national output should expect to finance their activities by loans and to use part of the additional output that the loans make possible for payment of interest and principal.

There is small hope, however, that American investment abroad will be on the scale required in the postwar period unless measures are taken to facilitate and protect it. Private investors retain too vividly in their minds the experiences of the thirties and will be too acutely aware of the unsettlements that the war itself has produced. If nothing is done, the great reservoir of American capital may remain dammed up at the time when it is most needed abroad.

This could well prove a tragedy for the United States itself. One of the chief dangers we face in the years to come is that idle capital will accumulate in this country and exert a deflationary influence. This is a possibility—not a forecast. While reconversion of industry to a peacetime basis is in progress, demand for the civilian goods that are available will almost certainly outrun supply and have to be controlled. In this earliest period foreign demand for some of our goods will also have to be rationed. But as the civilian shortages are relieved, it may turn out that the American public is consuming and investing less than is necessary to sustain the economy at a full production level. Under such circumstances American investment abroad on a great scale would not only help the foreign world and lay the foundations for a rise in our standard of living in the future—it would also mean immediate employment of workers in the United States who would otherwise be idle.[3]

At the moment there are some unnecessary barriers to the hoped-for export of American capital. The Johnson Act prevents private loans to governments or governmental agencies in England, France, Belgium, Poland, Czechoslovakia, Greece, Italy, and half a dozen other countries with which we may wish to do business. The Neutrality Act is in some respects similar. These barriers should be entirely removed. In the postwar period lending should be governed by the merits of the projects that are then presented rather than by memories of the first World War.

But more than removal of barriers will be necessary. The government will have to play a positive role. For this purpose an expansion of the resources of the Export-Import Bank by a substantial amount will be in order. The Bank is a going institution with a well-established lending procedure and it should be in position to act immediately upon the termination of the German war.

Of even greater scope is the International Bank for Reconstruction and Development proposed at Bretton Woods. It should operate powerfully in the direction of getting American capital started abroad again. Some of this capital will represent funds subscribed by the United States Government and lent directly by the Bank. But by far the greater part of the funds lent under the aegis of the Bank will be drawn from the private capital market where the Bank will float its debentures or its guaranteed loans will be sold. Private investors will be enabled to lend abroad without incurring the unpredictable risks involved. The Bank will take these risks to itself. It will charge a

[3] This differs from the case of governmental giving discussed earlier. In that case the government could as well give to Americans as to foreigners. In this case, however, the limits of productive domestic investment have been reached and the capital that can be more productively invested abroad than at home is an additional factor in employment.

moderate commission for doing so—from 1 to 1½ per cent. The commission is intended to cover such losses as the Bank may incur. It is smaller than the private market would have to charge to cover the risks on ordinary loans because the Bank has important advantages. All its loans will have behind them the full credit of the central bank or government of the borrowing country, and the commitment should have particular force because the government of the borrowing country will itself be a member of the Bank and a participant in its councils. The projects financed will not be isolated ventures or promotions of security salesmen. They will be broadly conceived from the standpoint of their place in the economy of the country and the contribution they can make to increased national output and to a stronger international position. Finally, the recurrent exchange difficulties that have rendered private investment insecure in the past will be far less of a threat to a Bank which is working in close co-operation with the International Monetary Fund. For these and other reasons the Bank should be able to assume risks at lower cost than the private market; and by making resources available to borrowers at lower rates of interest it will diminish the likelihood that borrowers will be driven to default by the burden of interest on their national budgets or on their balance of international payments.

How large a volume of American funds will find profitable investment abroad in the postwar period is impossible to determine with any accuracy. If the resources of the Export-Import Bank were to be increased to several billion dollars; and if 6 billion dollars or more of the loans made under the aegis of the 9 billion dollar International Bank were to come from the American market; and if all this money were to be lent out in the first five years after the war; then the annual rate would approach 2 billion dollars a year. That these institutions should be fully loaned up within five years of the end of the war is a bit improbable. But one must also take account of the long-term credits that are likely to be granted to enable goods in process of manufacture under lend-lease at the war's end to be finished and shipped if they will serve a civilian purpose. And there may be special credits to assist some of our major Allies. It seems not unreasonable to anticipate that dollar resources amounting to 2 billion dollars annually may be provided under government auspices in the first five years after the war unless foreign economies are too disorganized to receive them.

In addition to the government-sponsored capital there will be the funds that Americans lend abroad without assistance. American investment flows readily into Canada, and several other countries will find their credit strong enough to give them command of American capital at reasonable rates. In the twenties portfolio investments of

this type reached a peak of over 1 billion dollars a year and direct investments in business subsidiaries abroad rose well above 300 million dollars. After this war portfolio investments may to a large extent seek the protection of the guarantee afforded by the International Bank. But unassisted direct investments are likely in the course of time to rise to new heights. Even while the war is on there has been a strong tendency for business capital to move into Mexico.

If the American people in one form or another should lend an average of 2 billion dollars a year in the postwar period, they would be investing approximately as much abroad in relation to income as in the twenties. In relation to their probable savings they would be investing much less. There is room in this picture for a flow of American capital abroad considerably in excess of the 2 billion figure, but much will depend upon whether foreign economies and political arrangements can offer the necessary inducements and whether investment projects of the right type can be conceived, planned in detail, and negotiated without excessive delays. There will also be a problem of assembling the necessary managerial and technical skills to insure that the projects will be competently developed and administered.

American investment abroad will undoubtedly be offset to some extent by a flow of foreign capital here. But the movements of the thirties are not likely to be repeated. During the war control of capital movements has become almost universal abroad and both the mechanism and the principles of operating it have been greatly developed. The International Monetary Fund Agreement, which looks toward the removal of exchange restrictions from trade once the transition period is past, allows full application of exchange restrictions to capital movements. It seems quite certain that in the postwar years capital flights or speculative capital movements will be severely controlled. Even portfolio investments for purposes of diversification may be under scrutiny. Countries whose balance of payments would be burdened by a capital outflow may be inclined to permit only necessary business investments abroad.

If this is the case, little foreign capital is likely to flow to the United States in the postwar period. From an economic standpoint there is no reason why it should; for, as has been noted, we shall have an abundance of capital in this country and will ourselves be seeking more productive outlets for it in foreign lands. There is a possibility, in fact, that some of the 9 billion dollars of private foreign balances and investments already here may be withdrawn.

Travel, Remittances, and Shipping

In addition to the net capital outflow there are other factors that may help to sustain a merchandise export surplus for this country in

the years following the war. Chief among these is the tourist trade. Toward the close of the twenties we were paying out more than 300 million dollars net a year on travel expenditures. With twice the national income and striking improvements in the speed and comfort of travel, we may presently be paying foreigners two or three times this amount.

In the twenties it was the tourist trade, immigrants' remittances, and shipping that really maintained the merchandise export surplus. The net outflow of capital from this country was barely sufficient to cover income from our capital already abroad. But in the forties and fifties immigrants' remittances will probably be of little importance. The second and third generations will gradually have lost touch with their foreign relatives. And shipping, which by the test of economical operations should be in the hands of the Norwegians, the British, and others abroad, may be maintained as an American service through heavy subsidies. A popular objective at the moment is to carry half our foreign trade in American bottoms.

In support of this objective there can be urged the argument for maintaining an industry already in being and the argument of military necessity. If the situation were viewed dispassionately, the first argument would have to give way to one for orderly adjustment in the course of years to whatever basis could be sustained in straight competition with the shipping of the world. Subsidizing our own shipping, far from assisting American exporters, handicaps them by depriving their customers of the dollars that they need in order to buy here. The second argument, that of military necessity, is strong so far as it goes; but it suggests the desirability of maintaining a strictly limited volume of shipbuilding of an experimental sort and of operating ships mainly for purposes of training. Certainly from this standpoint nothing is to be gained by keeping the existing merchant fleet in operation. If this viewpoint prevails, shipping as well as travel will prove to be a source of dollars to our foreign customers in the postwar period.

The Backflow of Interest

A merchandise export surplus financed by loans, travel expenditures, and possibly payments for foreign shipping services could be both substantial and profitable for this country; but gradually the portion financed by loans would disappear. It would be replaced by a backflow of interest on the loans already made. To maintain a rate of net investment sufficient to cover a 2 billion dollar merchandise export surplus would necessitate such a rapid increase after fifteen years as to be quite beyond the range of probability. In thirty years, for instance, at 4 per cent, 6½ billion dollars would be required; at 5 per cent, 8½ billion dollars. And these are net figures. They do not include the new investment that would be required to offset amortization payments. To offset

amortization as well as interest the American public would have to make a gross investment abroad of from 12½ to 15½ billion dollars a year at the end of a thirty year period if it was maintaining an annual merchandise export surplus of 2 billion dollars.[4] A progressive increase of these dimensions is almost inconceivable. Nor would it be of advantage to the world, for it would render the balance of international payments too vulnerable to the uncertain reactions of American investors. Whenever confidence in the foreign situation weakened, investors could stop buying new issues and let the great flood of amortization and interest payments pour in. Sudden strains of incalculable amount might be thrown on the debtor countries. While the Export-Import Bank and the International Bank and the Fund might supply a steadying influence, they could hardly control the situation. It is fortunate, therefore, that no such accumulation of foreign investments by the American public is in prospect.

The consequence, however, of a more stable rate of American foreign investment will be the gradual disappearance of our export surplus on merchandise and service account. Over a period of about twenty-five years it may disappear entirely and then give way to an import surplus. Would the readjustment involved be too disturbing for the United States? There are those who think so and who therefore are reluctant to encourage the investment abroad of 2 billion dollars or more a year.

There is small basis, however, for such fears. Let us assume that the annual rate of investment is greater than 2 billion dollars—that it is 3 billion dollars and that we must adjust our foreign trade to the disappearance of this larger amount. An adjustment of 3 billion dollars over a period of twenty-five years would amount to 120 million dollars a year. This is less than one-tenth of 1 per cent of our probable national income after the war and a still smaller percentage of the national product. Basically it is the national product that must absorb the change in American exports and imports, and by this measure the amount of the required adjustment is quite negligible.

But it will be urged that the immediate impact of an adjustment in our trade balance will not be diffused immediately over the whole national product. It will be concentrated initially in those commodities which are in direct competition with foreign products. Even this initial impact, however, should be minor. Our output of international commodities in 1937 was nearly 50 billion dollars. After the war it will be far greater. An adjustment of 120 million dollars a year is only one-fourth of 1 per cent of the 50 billion. Tariffs, subsidies, and commodity

[4] It is assumed that the loans have a maturity of twenty years and are regularly amortized. If they were paid in one lump sum at maturity, the amounts of gross investment required at the end of thirty years would be larger.

agreements with other countries can properly be employed to insure that the impact is evened out over the whole range of the 50 billion and not concentrated too much on particular commodities; but these instruments should be employed only to effect a smooth transition to a situation in which they will no longer be needed.

There need be no fear, therefore, of the ultimate consequences of an orderly outflow of capital amounting to 2 or 3 billion dollars a year. The one real danger lies in the possibility that the movement of capital will not be orderly—that there will be periods as in 1929 when a combination of high money rates at home and an advancing stock market will kill our interest in foreign bonds; or other periods when accumulating doubts about the soundness of the foreign situation will do the same thing. At these times the governmental agencies will be hard put to prevent the pressures from becoming too great. But if the Export-Import Bank, the International Bank, and the Monetary Fund are all in operation and in command of 10 billion dollars or more of American resources, they can give support in a way that was not possible in 1929. And the fact that foreign countries now have reserves of 17 billion dollars instead of 7 or 8 as in 1929 will also help enormously to meet the temporary crises that develop.

If the temporary crises can be surmounted the longer-term adjustments scarcely constitute a problem. This would continue to be the case even if, as the years passed, our annual foreign investments tapered off—even if we began to take net repayments on our capital. But there is little reason to suppose that a country with the saving capacity of the United States will reach the stage of disinvesting abroad in the foreseeable future except under the influence of the temporary situations just discussed.

Measures of International Adjustment

If the United States can sustain the balance between trade, services, and capital that is here contemplated and can do it in a world that is making progress toward elimination of commercial barriers it should find its business abroad solidly founded and commensurate with its business at home.

It has been suggested in some quarters that virtually all that is needed to balance the international position of this country is full production at home. Certainly such a development would work powerfully toward international balance. It has been estimated that with national income of 130 billion dollars and with import prices a third higher than before the war this country's imports might reach 6 billion dollars. This would go far toward balancing the international position of the United States since it has also been estimated that, with industrial pro-

duction abroad 50 per cent greater than in 1929 and prices and trade barriers about the same, our merchandise exports might be in the neighborhood of 8½ billion dollars. The gap could well be covered by tourist travel and foreign loans.

Such estimates are, however, far from precise. They are more in the nature of reasonable magnitudes based on broad relationships in the interwar period. The same studies that have produced the estimates have also developed what may be a highly significant fact. It appears that while an increase of, say, 10 per cent in United States production tends to bring the same percentage rise in United States imports, an increase of 10 per cent in foreign production tends to bring a 15 per cent rise in United States exports. Thus a general expansion of production the world over tends to enlarge the export surplus of the United States.

This tendency will be accentuated in the reconstruction years if the foreign world experiences inflation. There is considerable danger that this may occur in many places. Accumulated cash is plentiful abroad; easy money policies will be the order of the day; and governments will be under strong pressure from all sides to expedite the processes of recovery. There will be no lack of things to do. On the contrary there will be a chronic shortage of supplies and equipment for years to come. Under these circumstances the financial outpourings may well be in excess of the capacity of physical output to keep up with them. The overflow of purchasing power abroad would swell foreign purchases in the United States.

Even without developments of this character, however, it appears that England may be faced with a substantial deficit in its postwar balance of international payments. Many other countries may be in the same situation. There is unfortunately no reason a priori for supposing that, as the world presses domestic measures for obtaining full production, it will find itself automatically in balance on the international front. Other measures of adjustment will frequently be necessary to maintain the shifting equilibrium.

For the most part these other measures involve price-cost relationships. Their effectiveness depends on the ability of exporters to widen their markets whenever they can reduce their prices and still make a normal profit. Technological advance may give them such an opportunity, or special measures to rationalize the organization and methods of export industries, thus reducing their costs. The level of costs may also be reduced by monetary and fiscal policies which affect the whole economy. Again, lower tariffs abroad may enable exporters to sell for less (without reducing their costs) or an adjustment downward of their country's rate of exchange may do the same thing. What is common to all these measures is that they depend upon the power of lower prices to expand trade.

There has been some tendency on the part of economists recently to doubt the effectiveness of price adjustments—particularly where the United States is concerned. They readily concede that increases in physical production in the United States will draw in foreign raw materials, but they doubt that lower foreign prices will enlarge imports on any appreciable scale.

Those who hold this view are looking at ultimate consumption. They correctly observe that a lower price for coffee or sugar or bananas will not have much effect on American consumption of these products. (This is not quite so certain in the case of bananas.) Nor will a lower price for rubber or wool greatly affect the consumption of automobile tires or woolen suits. Given time there may be considerable effects on the market for some of these commodities even at the point of ultimate consumption; but that is not the real answer to those who doubt the effectiveness of price. The decisive answer is that over a wide range of commodities, as has been noted earlier, the foreign product is in direct competition with a domestic product. Even if there were no increase in the consumption of woolen goods, elimination of the tariff on wool would enable foreign wool to displace most of the domestic product as the raw material of the textile industry. Elimination of quotas and tariffs on sugar would do the same thing for domestic beet sugar. The American tariff is the most eloquent evidence of the effectiveness of price competition in our markets. Any American enterprise that is dependent upon it will bear emphatic witness to that truth. Far from lower prices being of no consequence, the American producer is so impressed with what they would do in the way of displacing American goods with foreign that he brings in the government to block them. If instead of fighting lower prices with tariffs and quotas and subsidies we wished to use them to balance our international trade position, it is abundantly clear that we could do so. It would have to be done gradually and without paralyzing blows to any industry—somewhat along the lines suggested earlier in this paper.

While the examples given in the preceding paragraph relate particularly to the import trade, most of our exports are similarly competitive with foreign products. There are some notable exceptions. American automobiles and various types of specialized machinery may sell abroad almost irrespective of price within considerable limits. Even where they are more closely competitive, manufacturers may be enjoying a profit margin sufficient to permit them to absorb a moderate cut in prices, or they may be able to respond with various adjustments in their manufacturing methods that will maintain their net income secure. And those who must take losses in order to meet reduced foreign prices may nevertheless hang on to their foreign markets for a

time in hopes that the situation may right itself. All of these factors taken together may slow down the response of our export trade to a stronger competitive position abroad; but if the foreign pressure continues, they can hardly prevent that response in the end over most of our export front.

Role of the Bretton Woods Institutions

The means of balancing international transactions are available. In particular an appropriate balance can be created for the United States if the will to use the means exists. But unless the various countries of the world keep reasonably abreast of one another in their domestic developments, international balance will be preserved only by exchange adjustments or by the widespread use of the controls that throttled and distorted the trade of the thirties.

The International Monetary Fund is designed to avoid exchange fluctuations and exchange controls so far as possible;[5] and if the spirit of the Fund is carried out in a world commercial agreement, the use of higher tariffs, quotas, subsidies, or other direct trade controls, as measures of permanent international adjustment will also be discouraged.[6] Hence the emphasis is thrown back on measures of domestic adjustment in the case of currencies under pressure from an adverse balance of trade.

The most constructive measures in such a case would be those designed to lower costs through improvements in technology or organization. Countries cannot, however, expedite their processes of technological advance or rationalization at will. Whatever they can do in that direction they are under strong inducement to do for their domestic profit and well-being. While international difficulties may add to the pressures for improvement, they may not accomplish much more than the existing domestic pressures. The results may fall far short of what is required for international balance.

A general lowering of costs through monetary and fiscal measures in countries under pressure would also promote international balance and could be deliberately undertaken for the purpose. But an internal deflation of any magnitude is likely to proceed unevenly and to the accompaniment of widespread distress and unemployment. No modern country will tolerate it in its more severe forms if it can be prevented.

Avoidance of inflation, however, is another matter. The management

[5] While no member of the Fund may restrict trade by means of exchange control once the transition period is past unless the Fund gives its permission, all members will be free to restrict capital movements. In fact the Fund may require a member to restrict an outflow of capital while it is using the Fund's resources.

[6] A lowering of these barriers will, of course, be welcome; and creditor countries can work toward international balance by such measures.

of the International Monetary Fund can properly insist that countries which are developing deficits in their international balance of payments because of inflation should not periodically come to it for permission to alter their rates of exchange. Rather they should take measures to stop the inflation. The Fund can perhaps go farther. When a country joins the Fund, it becomes formally part of an international community. Shifts in exchange rates may prove upsetting to that community even when their longer-term tendency is toward equilibrium. Sterling, for instance, cannot be marked down without marking down overnight the price of a whole series of individual commodities traded in the British market. Among the smaller countries such as Denmark almost the entire export trade may be affected. As members of the international community, the British will presumably weigh the disturbances involved in a change in the sterling rate against the sacrifices they would incur in altering their domestic policy so as to render the exchange adjustment unnecessary. Suppose that the pressure on their international position has arisen from the fact that they are pushing their domestic expansion faster than other countries. Suppose also that there is no serious inflation in England, merely an active expansionist policy. Even under these circumstances the British might decide that a more moderate rate of expansion—one that would keep them abreast of other leading members of the Fund—would be preferable to forcing on the international community the disturbances involved in a devaluation of the pound. It would be essentially a question of which move entailed the lesser sacrifice; and Fund concurrence in the decision would have to be sought, for any country which changes its rate by more than a single 10 per cent without concurrence of the Fund will become ineligible to use the Fund's resources and may be compelled to withdraw from membership altogether.

The Fund, however, will concur in a shift of the exchange rate if it is essential to correct a fundamental disequilibrium. It may also permit application of exchange control to trade. When raw material countries whose exports are dominated by a few commodities with highly fluctuating supply and demand conditions find their reserves inadequate to cover a trade deficit that will presently right itself, exchange control may be the least disturbing method. But if the tendency toward a deficit persists, more fundamental measures will be necessary. If the Fund concurs in an adjustment of the exchange rate, it will be because such an adjustment appears to be the most reasonable and effective method of correcting the balance of payments of the deficit country. And the adjustment will not start a round of retaliatory exchange depreciation by other members because the Fund will not permit it. This is one of the most important aspects of the Fund agree-

ment. It will make exchange adjustment, when it is necessary, a far more effective instrument than it was in the thirties.

The International Bank for Reconstruction and Development may bring a further influence to bear in correcting maladjusted balances of international payments. To the Bank, surveying the economy of a deficit country as a whole, it may be apparent that its difficulties lie in too great dependence on a single crop or certain raw materials of which it is the source. To force all readjustments through these few commodities would prove too severe a process. In such a case the Bank can foster a program of diversification or industrialization to give the country a broader base on which to operate. Its loans will help to balance the international transactions of the country immediately, and presently the broader economic development will itself shape toward the same end. The whole program of the Bank should prove to be an influence in this direction whether undertaken specifically to right a country's deficit position or not.

Together the Fund and the Bank will help to create a world in which the need for measures that unsettle trade, such as exchange control or exchange fluctuations, will be minimized; and when such measures do become necessary, the Fund will see that their application is orderly and such as to cause the least disturbance to the members as a group. The resources of the Fund will be available to give the members time to correct their unbalanced situations so far as possible in other ways.

Because of the speed with which difficulties may develop in the exchange market, it is essential that the Fund's resources should be instantly available to those who need them. For this reason the quota system has been devised which permits a member to draw up to a specified amount on its own initiative. The drawing quota is virtually an addition to a country's reserves—i.e., its gold and foreign exchange holdings—so long as the country is acting in accordance with the purposes of the Fund.

Critics of the Fund have concentrated their attacks on this feature. They point out that the United States is putting up most of the resources that will actually be used and they argue that to make these resources available to other members without preliminary investigation or negotiation is to invite abuse. Those who worked out the Fund agreement at Bretton Woods were aware of this possibility. Without impairing the instantaneous availability of the Fund's resources, which is essential for exchange operations, they provided a series of protective measures which taken together should go far to allay the concern of the critics.

Some of these protective measures are automatic. They do not require action by the management of the Fund. For example, no member can

use more than 25 per cent of its quota in one year without permission of the Fund. In order to use the resources of the Fund at all a member must pay a service charge of three-fourths of 1 per cent. This charge was deliberately set above the gold points between most of the financial centers of the world. It was designed to make it cheaper for a country to use its own gold to obtain a needed foreign currency than to draw upon the resources of the Fund. And from the moment a country's drawings on the Fund exceed its gold contribution, it must pay an annual charge which increases both with the amount and the duration of the excess. While the charge is moderate, it will put a steadily growing pressure on members to eliminate the deficits that are leading them to draw on the Fund—or at least to finance them by other means. There are, in addition, the repurchase provisions the tendency of which is to require countries that have ample gold and exchange reserves to repay promptly any resources they have drawn from the Fund. All these measures, as has been noted, come into play automatically. The automatic assistance which the Fund provides goes hand in hand with automatic checks.

If these checks are not sufficient—if it appears that a member is using the Fund in a way that is contrary to its purposes—the management can deny that member the right to any further assistance. This will require a vote, to be sure, and in practice it may be difficult to get the various countries to convict a member of acting contrary to the purposes of the Fund. Most situations will be far from clear and it may well seem the easiest thing to do not to raise any question, or at least not to take positive action. But the American representatives on the Fund will wield great influence by means both of the prestige of the United States and of a vote that will range from 28 to 35 per cent of the total that can be cast. If these American representatives are keenly aware of the importance to this country of balanced international transactions and are prepared to act unflinchingly to attain this objective, the machinery of the Fund should be adequate to their purpose. They can see to it that the resources which the United States contributes are not dissipated in financing chronic deficits in the international transactions of foreign countries, but rather are used now in this direction, now that, to hold the situation while an expanding world economy, which, to succeed, must keep itself in balance, rights itself over and over again. Much of the job, so far as the Fund's resources are concerned, may be done by the automatic checks. There is ample discretionary power to do the rest.

But the American representatives must act within the framework of public opinion at home. They will be representing not themselves, but the country. It is the country that will be called upon to take the

measures necessary to balance our export trade with the productive loans that we are prepared to make and the foreign goods and services that we can profitably use.

We can achieve such a balance if we want to. That is the thesis of this paper. We can achieve it whether or not we succeed in getting full employment at home; but an expanding, solidly balanced world trade would contribute powerfully to our efforts to build up our own economy, and success in those efforts would in turn help to maintain the balance through enlarging domestic markets and creating the conditions under which Americans will most willingly make the adjustments that the international situation will from time to time require. The adjustments are not large. Against the background of domestic production affected they are almost picayune. And when the immediate impact upon a particular industry would be too severe, special measures to tide that industry over the transition could be employed. But unless the American people are profoundly convinced that their own interests as well as the world's will be served by the adjustments they are asked to make, the particular industries affected will marshal their forces in defense of the *status quo* and win out on every concrete issue as it arises. The critical question is whether this country is prepared to join the Fund in spirit as well as financially—whether it is prepared to play the game of international balance through to the end in order to build our program of full and productive employment into a world economy that will support it.

DISCUSSION

Alice Bourneuf: I think the reasons for believing that adoption of the Bretton Woods proposals would substantially help rather than hinder the achievement of international monetary stability and the elimination of destructive exchange practices have been conclusively stated elsewhere and need no repetition. But the position of those who doubt the possibility under present circumstances, even with the assistance of the Bretton Woods plans, of achieving balance of payments equilibrium without complete exchange or trade controls deserves careful consideration. Mr. Fellner takes this position. Throughout his paper he emphasizes his belief that sensitive international long-term capital movements were the chief equilibrating factor prior to 1914 and that there is little chance of a revival of such capital movements. He states four conditions for the successful achievement of stability without controls but is skeptical as to the results even if those four conditions are met. And his skepticism seems to be based on the idea that other equilibrating factors cannot take the place of sensitive long-term capital movements.

I agree that the four conditions stated by Mr. Fellner are of fundamental importance. Some degree of political security, maintenance of reasonably high levels of employment by domestic measures, commercial policies which increase the adjustability of the flow of goods, and wise use of the Fund's power to approve changes in exchange rates are all necessary for continued stability. I do not quite agree with Mr. Fellner's fear that even if all four of these conditions are met a lack of international long-term capital movements which are sensitive to interest rate differentials may prevent the achievement of international equilibrium. I believe that only if there are substantial steady movements of foreign capital to countries in need of foreign goods for reconstruction and development will these countries persist in avoiding exchange and trade controls. And perhaps this is essentially what Mr. Fellner means. But somehow his emphasis on long-term capital movements sensitive to interest rate differentials leads him to think that even if the Bank proposal is adopted there is little hope of capital movements of the required nature. And in my view there is good reason to expect the required capital movements to take place. It seems to me that the International Bank, together with other national institutions like the Export-Import Bank, may well succeed in encouraging a steady and sufficient flow of private capital to meet the needs of the undeveloped areas, removing pressure in those areas for restrictions on imports.

I find it a little difficult to think of long-term capital movements of the late nineteenth and early twentieth century as the most important equilibrating factor. It seems to me that it was the sensitivity of short-term capital movements which was important as an equilibrating factor prior to 1914. I believe that William Adams Brown's emphasis was on the equilibrating effects *in the short run* of both long- and short-term capital movements with special emphasis on short-term movements offsetting abrupt changes in long-term movements. As far as short-term movements are concerned there is every reason to think that under the Fund Agreement credits granted by the Fund will take their place up to a certain point. Also, under the Fund Agreement countries which

are in difficulties and which are borrowing from the Fund may be required to control disequilibrating speculative outflows of capital. And perhaps most important of all the exchange rate and exchange control commitments which are included in the Fund Agreement should contribute substantially to restoring the equilibrating type of short-term capital movements which were so important before 1914.

Certainly the movements of long-term capital in the nineteenth century were not in general induced by balance of payments difficulties. It is true that the capital movements led quite directly to goods movements and thus failed in general to be too disturbing a factor. But there were waves of enthusiasm for foreign investment followed by abrupt cessations of foreign lending which were definitely disturbing. Excessive loans for unproductive purposes occurred and interest charges were high.

During the nineteenth century the initiative in developing and industrializing the newer areas came primarily from the capital exporting countries. The initiative after this war may come primarily from the governments of the borrowing countries. Almost every less developed country today has its three-, five-, or ten-year plan. And although this could be a threat to balance of payments stability it seems to me that with the help of the Bank it may become a factor of strength.

Any loan made or guaranteed by the Bank must obtain the guarantee of the borrowing government. The governments of the borrowing countries will be guided and advised by the International Bank. The fact that private capital will be wary for some years to come of investing in countries or in projects which cannot obtain a guarantee from the International Bank will give the Bank considerable influence. The Bank may use its influence to encourage borrowings for the most productive purposes, avoidance of excessive borrowing, and fair treatment of foreign capital. The Bank can encourage lower interest rates and longer-term loans. It can help countries weather temporary exchange difficulties by accepting service payments in local currencies for short periods. In all these ways it can help to maintain a steadier flow of foreign capital. Furthermore, it can use its own loans and guarantees to steady the flow of foreign capital.

Aside from the problem of long-term capital movements I wonder if Mr. Fellner is not underestimating the *equilibrating* possibilities of the maintenance of high employment levels in the major industrial countries (once substantial equilibrium at high employment levels has been attained), more liberal commercial policies, and orderly changes in exchange rates. We have had no experience in such a world. In particular, the effectiveness of an exchange rate change which is not accompanied by expectations of widely fluctuating rates, or at least probable future changes, and which has not been preceded by a loss of confidence, speculative capital outflows, and disturbing deflationary influences may be very great. Furthermore, Mr. Fellner is perhaps underestimating the Fund's ability to reduce balance of payments disequilibria by helping a country to meet a deficit when it develops. The spread of exchange difficulties from one country to another may be prevented if the

deficit is only temporary and in any case the country is given time in which to take corrective measures and is also given expert advice.

There is one condition of stability which I would add to those of Mr. Fellner. There must be some means of achieving greater stability in the prices of certain raw materials and agricultural products. Otherwise, as long as some countries are dependent on exports of one or two of those products there is little hope of stability of their exchange rates and avoidance of exchange controls.

One of the most hopeful features of the Fund Agreement is its flexibility. Special transitional arrangements and provisions for approval of exchange controls mean that the Fund can perform very useful functions even before all the conditions necessary for complete removal of controls and for the achievement of stability are met. And the Fund and Bank together can contribute in substantial ways to the fulfillment of the other conditions.

RAGNAR NURKSE: The chief value of Dr. Gardner's paper seems to me to lie in his important and interesting suggestions regarding the future of American foreign investment and the role of the Bretton Woods Bank. One may or may not feel equally convinced by Dr. Gardner's views on the Fund; but it can be said with confidence that if his ideas concerning foreign lending in the postwar world are realized, any controversial questions as to how the Fund should be operated are unlikely to cause serious trouble in practice.

Naturally some points in the Fund agreement had to be left open, and remain to be agreed upon later by the managers of the Fund or by the countries concerned in each particular case. One of them relates to the conditions of "fundamental disequilibrium"—the conditions, that is, in which changes in exchange rates are to be permitted. Dr. Gardner interprets those conditions in a way which seems to me unnecessarily severe. In his view, the Fund "can properly insist that countries which are developing deficits in their international balance of payments because of inflation should not come to it for permission to alter their rates of exchange." Since in the next paragraph he says that "the Fund, however, will concur in a shift of the exchange rate if it is essential to correct a fundamental disequilibrium," he apparently takes the position that a disparity in price levels and hence in balances of payments, if it is a result of inflation, cannot be regarded as a "fundamental disequilibrium."

I should have thought that a marked and general inflation of the price and cost structure in any given country provides the most obvious case for an alteration of the exchange rate. Inflation is not to be cured by deflation. The proper course of action is to stop the inflation and to adjust the exchange to the new price level. Such adjustment may be "upsetting," it is true; but the alternatives are worse than upsetting. One alternative is for the country concerned to impose additional import restrictions; and this is bound to be the practical result of the Fund's refusal to permit devaluation in the circumstances indicated. The other is internal deflation, which, for reasons mentioned by Dr. Gardner, is likely to be quite impracticable.

The Fund should by all means exert its influence in helping to prevent inflation. But once inflation has become an accomplished fact in any country, nothing is to be gained by refusing to adjust the exchange to the new situation. Exchange depreciation may assume the character of a beggar-my-neighbor policy of exchange dumping when it aims at creating a surplus in the balance of payments. When its purpose is to close a large and persistent deficit, it may well be the most appropriate, or at any rate the least objectionable, means of adjustment. I agree that exchange adjustments should not be undertaken lightly. Normally, conditions of "fundamental disequilibrium," arising, for example, from permanent shifts in foreign demand or differences in technological progress, are not likely to develop at frequent intervals. They may, however, develop very rapidly as a result of inflation. It may be idle to try to forecast where and when inflation will occur after the war; but to me it seems probable that the really serious cases of inflation will, as in the past, be associated with political upheavals and break-downs in government machinery. (I should perhaps explain that I am using the term "inflation" in the sense of a rapid and general rise in costs and prices, and not in the "relative" sense in which the national income of any country maintaining a high and stable level of employment might be said to be "inflated" in comparison with a country that is content with a lower level of employment.)

Ideally, exchange rates should be fixed for long periods in such manner that the balances of payments of all countries are in equilibrium when all countries simultaneously enjoy "full employment" without inflation. Full employment by itself cannot, of course, ensure equilibrium in the balances of payments. Only a particular set of exchange rates will do that. I share Dr. Gardner's confidence in the efficacy of exchange adjustments as a means of righting the balance, at any rate in the long run. To his remarks I would only add that even if domestic and foreign demands for imports and exports respectively should happen to be so inelastic that exchange depreciation would increase instead of reduce a passive balance, exchange adjustment might still be capable of securing equilibrium, except that it would have to take the form of exchange *appreciation*.

In the short run, however, "cyclical" shifts in demand schedules may be so wide and violent that it is difficult or impossible to determine precisely what amount of change in exchange rates would right the balance. To leave the exchanges free to fluctuate under such conditions would open the door to speculative fluctuations which are just as likely to accentuate as to remove a disequilibrium. It should therefore be the function of gold reserves and other forms of "international liquidity" (including the facilities provided by the Fund) to meet cyclical and other short-term discrepancies in the international accounts. If the volume of international liquidity is inadequate, the methods of exchange control and currency rationing may have to be temporarily employed for this purpose.

Some critics have objected to the Bretton Woods scheme on the ground that the additional liquidity to be furnished by the Fund is not required, since countries other than the United States have accumulated fresh reserves in recent years and now hold an estimated total of 17 billion dollars of gold

and dollar balances. But it would be rash to assume that this amount will all be available for the short-term balancing functions of international liquidity when "normal" conditions return. A large part of it represents in substance deferred expenditure—a form of wartime "compulsory saving." Many countries, including notably the South-American republics, have been obliged to hoard the gold and dollar proceeds of their exports, because transportation difficulties, wartime scarcities and production controls have prevented them from securing anything like the customary volume of imports. After the war they will want to replace their worn-out machines and depleted raw-material stocks, and it is doubtful how much of their present reserves will be left for the cyclical and other short-term uses of international liquidity. The South-American countries, in particular, will probably want to spend a considerable part of their swollen gold and dollar reserves on re-equipment and restocking purchases in the United States, as the foreign lending to be sponsored by the Bank for Reconstruction and Development is likely to be directed first to purposes of reconstruction rather than development.

Even if capital exports from the United States reach the amounts suggested by Dr. Gardner, there is reason to expect that, during the first five or ten years after the war, it will be difficult for the United States to avoid making "gifts" to foreigners in the sense of goods supplied in return for gold. True, foreign countries will need gold; but, for a time, their scales of priority are likely to be such that they will need goods even more. Gold as a source of international liquidity will seem a luxury to countries devastated by war; and they may be prepared to do without it all the more readily as the Fund permits member countries during a five-year transition period to maintain exchange control on current as well as capital transactions. A factor tending to limit American exports of commodities would, however, come into play if, as Dr. Gardner suggests, foreign demand were to be rationed in the United States during the early period of reconversion.

As indicated before, the emphasis which Dr. Gardner places on productive capital exports from the United States after the war is a commendable and significant feature of his paper. The potential importance of foreign investment for the United States as well as for the outside world can scarcely be exaggerated. It is sometimes said that if countries such as the United States would only adopt the necessary "domestic" measures to maintain full production at home, international trade would look after itself. Prof. Fellner's statement that "the maintenance of a high level of employment in the leading economies is a necessary condition of the restoration of 'normal' and reasonably free international relations" is one to which I myself would fully subscribe. Foreign investment, however, is not a purely "domestic" measure; it constitutes rather a special case in that it directly affects both domestic employment and international trade.

It is chiefly the risk factor that impedes the international mobility of productive capital; and it is the risk factor that the Bretton Woods Bank is chiefly designed to attack by pooling the risks and equalizing the risk premium through the procedure of joint international guarantees coupled with a guarantee commission or "insurance premium." A steady rate of total foreign

investment should certainly be among the Bank's objectives; if other loans move in a cyclical manner, as in the past, then the Bank should time its loans in an anticyclical manner (even if, as Dr. de Vegh believes, this would render the Bank "wildly unpopular"). In any case it would be desirable for the Bank to co-ordinate its activities with the position of the Fund by floating or helping to float foreign loans in a country whose currency was threatening to become scarce in the Fund. This would tend to replenish the Fund's holdings of that currency either directly or, if the loans were spent wholly in the lending country, indirectly through the expansion in that country's national income and the consequent increase in its imports.

Dr. Gardner deals at some length with the problem of repayment and with the readjustment it will involve in the United States economy. Remote though this problem may seem to us in time, a demonstration of how it can be met may help to remove prevailing inhibitions on foreign lending. There is only one point I should like to add to Dr. Gardner's treatment of the subject. The return flow of interest payments in real terms should be brought about, not only through the "impact" or "pressure" of foreign goods on the American market, but equally through the "pull" or "suction" of American demand for foreign goods. So long as employment and effective demand in the United States are kept up, the readjustments required in the American economy will present little difficulty. Dr. Gardner's proposal that subsidies be used in a manner to promote these readjustments is to be strongly recommended. It has, indeed, a wide field of application in any process of economic change. Instead of protecting inefficient industries and so perpetuating the cost which the community must bear through the high prices of the products concerned, governments would always do better to compensate or subsidize the factors engaged in such industries on condition that they changed over to a more productive activity.

Henry C. Simons. I have enjoyed Mr. de Vegh's paper. The differences between us are perhaps unsubstantial and, in any case, concern weighting and relative emphasis, not the validity of the broad considerations he has invoked.

There evidently is complete agreement between us on the primary and paramount importance of financial-commercial relations within a dollar-sterling bloc—United States, Great Britain, the British Dominions, and the nations of northwestern Europe. The economic-political solidarity of these friendly, ideologically congenial, and securely democratic nations, however, is not an alternative to world organization and global schemes. It is not an "either-or" kind of issue, but a problem of proper balance between essentially complementary policies. The great virtue of a dollar-sterling bloc is that its proper objectives (monetary stability and substantially free trade among its constituent nations) can be achieved without discriminating against or alienating other nations, and with obvious advantages for them all. To this end, more inclusive international agencies are invaluable means of continuous consultation, giving other nations some hearing with respect to Anglo-American actions—not to mention the possibility of gradual and partial extension,

through these agencies, of arrangements worked out in the dollar-sterling area.

Mr. de Vegh is surely correct in his view that global arrangements have been inordinately overemphasized relative to arrangements with our close friends and as means for the solution of transition difficulties. Whatever the advantages and disadvantages of separate multilateral negotiations in different areas of economic policy, it seems clearly wrong to pursue such negotiations without prior settlement or narrowing of Anglo-American bargaining disputes as a whole.

The Bretton Woods agreements are best to be regarded as a long-term investment in international monetary-fiscal consultation and collaboration. As such, they do not, I believe, call for an inordinate sacrifice of our bargaining power, although the reciprocal concessions are meager and indefinite; and I strongly favor ratifying and implementing the agreements as they stand, while wishing that they stood differently. Neither Fund nor Bank strikes me as of great immediate usefulness. One may hope that the latter will prove temporarily helpful and not last long, and that the Fund will evolve into a flexible agency for co-ordinating national programs of monetary-fiscal stabilization.

I warmly agree that lending (along with giving and forgiving) is our proper bargaining instrument. It suffices for our bargaining; and our tariff should not be so used. Our strong monetary position carries a responsibility for initiating boldly the reduction of trade barriers; only action will help here, for our representatives cannot promise much in bargaining or expect to be taken seriously if they do. No monetary arrangements can be very fruitful unless accompanied by radical change in commercial policies. Failing drastic American tariff reduction, our efforts to obtain real change as to exchange controls, quota restrictions, cartels, discrimination, and bilateralism must also fail—not only globally but even in those nations where our commercial relations are, in Mr. de Vegh's opinion and mine, of crucial importance.

Finally, I should stress the importance of domestic monetary stability. Our tariff aside, there is perhaps no greater proximate obstacle to close economic co-operation with our friends than their uncertainty about the future commodity-value of our currency. Given a really stable dollar, the task of restoring orderly international finance and decent commercial policies would be vastly simplified. A severe or prolonged American deflation is, if only for obvious reasons of domestic politics, utterly improbable; but vigorous leadership on minimal rules or objectives for domestic fiscal policy is needed to reassure the English—needed and lacking for the peace as it has been for the war. (Implicit here is the way of escape from de Vegh's dilemma about leveling out cyclical fluctuations.) Moreover, the requirements of an orderly world economy are not much better served by finance-be-damned schemes for domestic full employment than by prescriptions of relentless budget balancing or of radical devaluation—not to mention cotton-export subsidies.

If we could radically reduce our tariff and confront friendly nations with the prospect of a highly stable American price level, we should find it rather easy, with loans and financial assistance, to establish a relatively free-trade, dollar-sterling bloc, with close economic integration and substantial political

solidarity. This achieved or really projected, we might then explore and pursue intelligently the possibilities of wider participation and of useful international agencies. Such agencies might be substantially helpful in implementing and extending Anglo-American policies advantageous to other nations, and in minimizing possible friction between this bloc and other nations or blocs. There is much force in de Vegh's contention that global schemes are not a substitute for realistic solution of specific, transition difficulties. I should add that global conferences or agencies are poor places for ironing out what are mainly bargaining disputes in a friendly family of Western democracies. On the other hand, without some global schemes and global agencies, this group of nations cannot solve its own problems in a manner properly consistent with world order.

THE POLITICAL ECONOMY OF INTERNATIONAL CARTELS

CARTELS, A PHASE OF BUSINESS *HAUTE POLITIQUE*

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The word "cartel" has recently been catapulted from the obscure technical jargon of economic treatises to the front pages of daily newspapers.

When the TNEC in January of 1940 focused public attention on the problem of cartels,[1] it used the term in its scientific meaning and laid primary emphasis on domestic developments, notably the copper export cartels organized under the Webb-Pomerene Act, the Codes of Fair Competition under the National Recovery Act and the restraints upon competition brought to light in antitrust cases and in actions by the Federal Trade Commission and other regulatory bodies.

In 1942 the Committee on Patents of the United States Senate scrutinized various patent agreements between American and foreign, especially German, firms. It found that in some industries these had seriously weakened French, English, and American capacity to produce the implements of war.[2] Among numerous instances carefully documented were those relating to the production of synthetic rubber, beryllium, tungsten carbide, magnesium, optical glass, and plastics.

In 1943 these and similar patent agreements were revealed to be but an interlocking part of a framework of international intercompany collaboration which had been cleverly exploited by the Germans in order to diminish the economic strength of the countries marked for conquest.[3] Somewhat later Assistant Attorney General Wendell Berge, Head of the Antitrust Division in the Department of Justice, showed by the case record of more than a dozen industries that collusive business activities designed to limit competition corrode and destroy both free private enterprise and democracy.[4]

The full significance of such activities, however, is just beginning to be realized. In a brilliant pioneer study the striking similarity in economic goals has been set forth between international business cartels, combines, and associations on the one hand, and various antidemocratic

[1] *Investigation of Concentration of Economic Power,* Hearings before the Temporary National Economic Committee, 76th Congress, 3rd Session (Government Printing Office, 1941), Part 25, "Cartels," pp. 13037-13583.

[2] See Patents, Hearings before the Committee on Patents, United States Senate, 77th Congress, 2nd Session (Government Printing Office, 1942), Parts I-IX, incl.

[3] See Joseph Borkin and Charles A. Welsh, *Germany's Master Plan: the story of industrial offensive* (New York: Duell, Sloan and Pearce, 1943).

[4] Wendell Berge, *Cartels—Challenge to a Free World* (Washington, 1944).

movements—Fascism, National Socialism, *Hispanidad,* and *Kokutai*—on the other.[5]

Furthermore, in answer to the question, "Who put through the corporate state or the monopolistic, cartellized New Order, who are the collaborationists?" the evidence now is necessarily fragmentary as compared with that which will be available postwar. Suffice it to point out that a crescendo of testimony from those who resisted the enemy in liberated areas has begun to make the term "cartel" synonymous with Fascism and National Socialism.[6]

As a result the word "cartel" includes for the purpose of this paper both too much and too little: too much in that it has a connotation of subversive business activity and enemy economic warfare, too little in that it refers to a major end-product rather than the underlying originating activity which not only produces cartels and international combines but also influences, frequently formulates and sometimes controls the administration of international commodity agreements, commercial treaties, tariffs, and other instruments of international accord.

I. *Nature and Scope of Business "Haute Politique"*

In the absence of an accepted and satisfactory phrase[7] to describe such activity I have used the term "business *haute politique*"[8] to denote that substantial element of naked power in the business activities of businessmen directed at actual or potential competitors and the outside public by means of which concerted undertakings designed to "regulate disorderly markets," "adjust production to consumption," or "stabilize competitive conditions" are negotiated, modified, and enforced.

When erstwhile independent competitors get together in an atmosphere of mutual suspicion and skepticism, business *haute politique* is in an embryonic stage. None will risk commitment except on the basis of a written contract covering a severely limited field of co-operative action. That such an agreement should have been called a cartel (from *carta* meaning paper or document) is probably due to the fact that the term had long been current in military language to indicate documents signed by belligerents arranging for the mutual exchange of prisoners. By analogy it was applied to contracts between rival businesses arrived at by negotiations of quasi-diplomatic character. Business and economic analysts have in recent years had a field day

[5] Robert A. Brady, *Business As a System of Power* (New York, 1943).

[6] There is a voluminous pamphlet literature but among authoritative books, see, for example, Gaetano Salvemini, *Under the Axe of Fascism* (New York: Viking Press, 1936) and Pertinax, *The Gravediggers of France* (Garden City, N.Y.: Doubleday Doran, 1944).

[7] The phrase "politics of business" too strongly implies organized lobbying. "Company politics" suggests bureaucratic quarrels and office politics.

[8] See *Encyclopedia of Social Sciences,* Vol. 3, pp. 365-367, article on the Chemical Industry, and Vol. 5, pp. 296-305, article on Dyestuffs Industry.

debating alternative definitions, making classifications and subclassifications, defending, denouncing, exploring favorable and unfavorable consequences, and prescribing remedies.[9]

Thus the type of collaborative action embodied in and limited to the terms of a written contract is in many respects the weakest. After competitors come to know and trust each other, the written agreement or formal association is felt to be crude, inflexible, and unnecessary.

There then evolves what has been called the "basketball technique," proceeding according to unwritten almost automatic habit patterns of action. Industrial history records numerous instances in which when a cartel lapsed, the pattern of production, prices, and sales in the industry failed to change one iota. Once the administrative and business techniques for successful operation have become grooved, international commodity or industry cartel administrators are able to co-operate with the same dispatch and flexibility that five persons on the basketball floor advance the ball toward the goal. In the United States and in other countries which have antitrust laws on the books, such a pattern of conduct has the additional advantage of leaving no evidence lying around loose of conspiracy to restrain trade.

At the present time businessmen rely more and more on the use (or abuse) of ancient and legal devices such as patents,[10] trademarks, and indeed ordinary agreements of purchase and sale of plant and equipment. The record here is a long one and requires no elaboration, inasmuch as the economic and political repercussions of these new organs of business *haute politique* have been clearly set forth by Professor Corwin Edwards in his study for the Subcommittee on War Mobilization, more familiarly known as the Kilgore Committee.[11]

II. *Government Inevitably Drawn in by Business "Haute Politique"*

Both theory and experience demonstrate that in the measure businessmen resort to *haute politique* they bring government into their business affairs. The chain of events is relatively simple. The cardinal weakness of business *haute politique* is that it has to induce a large segment of the industry to join, including high cost marginal firms. It has to make the proposition interesting for every participating firm. But to the extent that each is allotted business and given security in making some money the industry becomes attractive to outsiders. New units are

[9] The literature on cartels has mushroomed to such proportions that the General Reference and Bibliography Division of the Library of Congress has put out a select list of references of 119 pages. See its *Cartels, Combines and Trusts* (Washington, 1944) compiled by Frances Cheney.

[10] See Walton H. Hamilton, *Patents and Free Enterprise* (TNEC Monograph No. 31, 1941); also Gunther Reimann, *Patents for Hitler* (New York, 1942).

[11] See his *Economic and Political Aspects of International Cartels* (Senate Committee print, Committee on Military Affairs, Monograph No. 1, 1944).

established which either undercut established prices and restore competition or they must be taken into the scheme and given a quota. Shares of the earlier firms in the limited volume of sales are thereby reduced. In order to make the system work it is, therefore, necessary to restrict entry into the field. This not only means the abandonment of freedom of enterprise but requires government co-operation and ultimately supervision.

The experience of Germany in this regard is highly illuminating. In 1873, an association of Bavarian Kiln owners,[12] formed for the purpose of "checking the decline of their industry by regulation of production and prices" brought suit against a producer who sold more than his quota. The Bavarian Supreme Court which validated the agreement held that it would be:

> . . . incumbent upon prudent business men belonging to a branch of industry which is suffering from a depression to get together and enter into agreements regulating the ways and means of operating their industry with a view to promoting recovery.
>
> . . . a depressed trade yielding little or no profit will immediately react adversely on the wage level and must eventually lead to the shutting down of plants or the curtailment of their operations, thus causing serious injury to the workers employed therein.
>
> Overproduction is disastrous for an industry, especially when market price drops below production cost so that every effort to eliminate overproduction is directed at an economic evil and is, therefore, to be commended. Since the individual producers are powerless to restore the proper balance between supply and demand by limiting their own output, the only way to bring about such result is for them to combine and agree on such limitation.

Some years later the German Supreme Court stated in the famous Saxon Woodpulp Manufacturing case:

> When the prices of the products of an industry fall to an unreasonably low level and the profitable operation of the industry is thereby endangered or made impossible, the resulting crisis is detrimental not only to the individuals affected, but also to the national economy as a whole.[13]

The economic philosophy expressed in these opinions is obviously identical with that of the United States Chamber of Commerce as embodied in the National Recovery Act. The codes of fair competition gave free rein not only to business self-government but to the economic ideas of business as well.[14]

What was the end product? In Germany, as is well known, despite the completely sympathetic attitude of the government, the cartels not only failed to solve their own problems but the government resorted to more and more compulsory cartelization and regimentation. German efforts to control cartels ended in tragic failure. Similar efforts to "play ball" with industrialists during the period of the NRA codes likewise

[12] Bavarian Supreme Court, Apr. 7, 1878, in *Decisions*, Vol. 12, pp. 6, 7.
[13] Decisions of the German Supreme Court of June 25, 1890 23 R.G.Z. 244 and of Feb. 4, 1897 38 R.G.Z. 155.
[14] See Theodore J. Kreps, *Business and Government Under the National Recovery Administration* (New York, 1936).

resulted in regimentation of frightening proportions. The iron and steel code, for example, required the filing of base prices with a waiting (or intimidation) period, established uniform price calculating formulae, allowed sales to be made only through distributors selected according to standards established by the code authority, maintained resale prices, fixed production quotas, prohibited the introduction of new productive capacity, and was enforced by a federal statute which carried the penalty of fine and imprisonment.[15]

While the Supreme Court in the Schecter decision fortunately saved the United States from the effects which such unsound economic theories brought upon Germany, it could not and did not thereby remove the fatal glamour which business *haute politique* continues to have for large numbers of American businessmen and publicists. There has been repeated agitation for advance immunity, revocable approval, declaratory judgment, or other device whereby private citizens make "laws" for their government to permit or enforce on a "take-it-or-leave-it" basis. Even the United States Chamber of Commerce until recently urged that:

> The antitrust law be modified so as to make clear that the laws permit agreements increasing the possibilities of keeping production related to consumption. Modification of the antitrust laws should include provision for Government supervision in order that agreements which are not in the public interest in stabilization of business operation and employment may be nullified. Businesses desiring to combine should have opportunity to ascertain from a suitable Government authority whether or not the proposed combination will be in violation of the antitrust laws. Each industry shall be permitted to formulate and to put into effect rules of fair competition which receive governmental approval. *The governmental agency* named by the President *should have only the power of approval or veto of such laws,* without power of modification or imposition, but with power to indicate conditions of approval. There should be opportunity for members of an industry to enter into agreements other than rules which when approved by the governmental agency, shall be enforceable against parties to the agreement. Rules of fair competition formulated by a clearly preponderant part of an industry as suitable for the whole industry, with due consideration for small units and approved by the governmental agency, should be enforceable against all concerns in the industry.[16]

Needless to say, national policy in the United States and in the world has recently shown increasing skepticism toward concentrating economic power in private hands. The manner in which irresponsible economic power in various forms threatens free competitive enterprise was thoroughly documented by the Temporary National Economic Committee. The menace to individual liberty resulting from the amalgamation of big business and big government into a monolithic power structure has been unforgettably demonstrated by Germany and Japan. In the recoil of public opinion from Fascism and National Socialism a renewed appreciation is sweeping the United States of the wisdom em-

[15] For a brilliant summary of "cartels" in American industry see Clair Wilcox, *Competition and Monopoly in American Industry* (TNEC Monograph No. 21, 1940).

[16] *Policies Supported As In the Public Interest* (Washington: Chamber of Commerce of the United States, 1936), p. 3. (Italics supplied.)

bodied in traditional antitrust legislation. Enforcement efforts have been multiplied. The popular resistance movements in Europe and the French and Russian governments are similarly demanding that cartels be absorbed or abolished.

III. *Business "Haute Politique" and Foreign Trade*

There is one area, however, in which the idea of business *haute politique* as the optimum method of doing business still exerts its siren spell. That is the field of foreign trade.

During the last war the Webb-Pomerene Act was passed ostensibly to enable American business to compete with foreign cartels in overseas markets. For more than twenty-five years these associations operated without being officially challenged. Yet, according to a recent survey[17] "the export trade of the members has not been aided by the use of a Webb-Pomerene association. . . . Over a period of years Webb-Pomerene associations have accounted for an average of only 7 per cent of total United States exports." Apparently the main function of such associations has been, not to stimulate export trade and employment, but to open up various questionable ways of making more money. Some of those ways according to the Department of Justice[18] may be in conflict with the antitrust laws.

In Great Britain after World War I, there were similar debates, of which the argument centering about the formation of a British dyestuff monopoly comprises an illuminating example. In the words of an official report:

> In view of these great and powerful combinations of dye-making concerns in Germany, America, and to a lesser degree Switzerland and France, it is a warrantable assumption that the British dyes industry could only be put into a position to compete effectively with its foreign rivals, whether in the home or in neutral markets, by some financial unification of its principal component firms such as that represented by the British Dyestuffs Corporation.
>
> Holding as we do the view that the giant concern is not necessarily either more efficient, enterprising or economical in its operations than the congeries of smaller concerns competing one with the other, we are, at the same time, impressed, as a result of the evidence we have heard, with the degree to which international competition in dyes (as also to some extent competition within the national frontiers) is a conflict of commercial "Great Powers" exhibiting all the characteristics of militant diplomacy carried on with financial and commercial brute force in the background, rather than a simple economic matter of striving to offer, in competition with others, the most acceptable article at the most favourable price.
>
> In this *haute politique* of large-scale industry the unassociated group of small concerns, though severally and jointly more efficient as regards mere production, may be at the mercy of the aggressive and predatory policy of the less efficient but financially more powerful rival.[19]

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[17] Sidney A. Diamond, "The Webb-Pomerene Act and Export Trade Associations" in *Columbia Law Review*, Vol. XLIV (Nov., 1944), p. 817.

[18] See *U. S.* v. *United States Alkali Export Association, Inc., et al.*, complaint filed Mar. 16, 1944.

[19] Report on Dyes and Dyestuffs, Subcommittee of the Standing Committee on Trusts of the House of Commons, Cmd. 1370 (H. M. Stationer's Office, 1921), p. 3.

More than two decades have now elapsed, during which time the proposition has been frequently advanced that the United States because of its antitrust acts was losing out in Latin-American trade. Yet in a special pamphlet published by the *American Exporter*, the recognized trade journal of the export trade, the question, "What becomes of the theory that Germany and Great Britain were outselling us in Latin America?" is answered by the categorical statement that "in general it was a myth based upon ignorance."[20]

Between pre-World War I and pre-World War II the trade of the United States in Latin America forged ahead of both Germany and Great Britain. The pamphlet cites the following figures:

COMPARATIVE SHARE OF TOTAL IMPORTS INTO LATIN AMERICA

Country	1913	1938
Great Britain	24.4%	11.6%
Germany	16.5	16.2
U. S. A.	25.0	33.9

The same publication in answering the question whether or not Hitler greatly expanded Germany's export trade points out that total German exports in 1938 had actually fallen behind 1932 by 9 per cent whereas the export trade of the United States by 1938 had increased 90 per cent over what it was in 1932 while that of Great Britain despite all the vaunted advantages of cartelization had gained only 29 per cent.

The item of significance here is obviously not the statistics, for measurements as crude as these impound the results of a multitude of other factors for which no allowance has been, or indeed for the most part can be, made. The fact of real interest here is that American exporters should themselves feel that German and English mollycoddling of monopolistic organizations in their export industries has by and large not demonstrated its efficacy.

This suggests the possibility that an intensive study of foreign trade statistics undertaken by an adequately equipped research staff might well yield scientific quantitative measurements of the repercussions of restrictive commodity agreements, whether governmental or private, not simply upon the economic fortunes of the industry involved (several such studies on wheat, copper, coffee, etc., have already appeared) but rather upon such more significant problems as the economic allocation of resources, the utilization of productive factors, the distribution of income, the pace of industrialization, the relative level and cyclical variation of national income and employment, and the dynamic adjust-

[20] "The Facts of Life on Export," *American Exporter* (New York, 1944), p. 13.

ment of investment, consumer purchasing power, costs, and prices.

In fact, it would be desirable if some part of the energy now spent on dogmatic discussions concerning the benefits and evils of cartels could be channeled into economic, historical, statistical research. Are comparative rates of investment and industrialization higher in free enterprise economies, or greater in periods of more active competition than at other times? Was cyclical unemployment, adjusted for other factors, proportionately less severe, say, in Germany and other highly cartelized countries than elsewhere? How is the volume, direction, and composition of international trade affected, with resultant data classified by respective types of so-called "cartels," by types of products involved, by stages of industrial growth or cyclical variance, and by types of government controls, national and international? While, obviously, no complete answer to these and many other relevant questions is possible, spectacular incidents afford a wholly insufficient basis for assured generalization.

IV. *Business "Haute Politique" and Mercantilism*

The economic theories which generally guide those who take into their own hands the co-ordinating functions of the market place have long since been thoroughly expounded by Adam Smith in *The Wealth of Nations*.

Like the Mercantilists in England or the *Kameralists* in Germany, the agreement-fabricators of the twentieth century not only (as they should) use straightforward business methods to maximize their wealth, profits, and long-run security of investment, but also contrive to "preserve their favored positions through the use of nonbusiness methods, by influencing governments, by combining to control foreign and domestic markets, by withholding scientific knowledge and practices from general use, by obtaining special privileges as a means of defeating competition."[21]

From the profusion of illustrations of these Mercantilistic principles in the provisions of various international business agreements only a couple are needed to clinch the point. The manner in which world markets are split up, trade autonomy is established, and conditions of interventionism and protectionism are fostered is strikingly illustrated in the electrical industry.

Let us take first the price of bulbs. In 1938, according to computations of the Tariff Commission, the prices of bulbs in the United States were considerably less than half of those in Great Britain or in Germany:

[21] "Senate Small Business Committee—its Record and Outlook," *Senate Committee Print No. 1*, 79th Congress, 1st Session (Washington, 1945), p. 4.

PRICE OF BULBS IN SELECTED AREAS*

Country	25-Watt	40-Watt	60-Watt
United States	$0.15	$0.15	$0.15
The Netherlands	.32	.59	.70
Germany	.30	.36	.48
Hungary	.30	.35	.46
United Kingdom	.39	.39	.39
Czechoslovakia	.22	.25	.36
Belgium	.24	.27	.34
Sweden	.23	.27	.33
Switzerland	.25	.25	.30

* *Incandescent Electrical Lamps* (Washington: U. S. Tariff Commission Report,1939), p. 49.

Granted that modern technology leads to oligopoly, the analogy of the automobile industry suggests that sufficient competition could be preserved to enable the American electrical industry not only to enter the continental lamp markets of Osram and Philips but to reduce the influence of the latter in Latin-American or other markets where they were protected by definite quotas, at least up to the outbreak of the war.

To make sure that the United States producers kept their end of the bargain, European producers freely engineered the imposition of tariffs. Germany, for example, imposed a duty of eighteen cents upon each miniature lamp imported in excess of established government quotas. Similarly in Argentina, Osram and Philips, after establishing local factories, lobbied through high tariffs against importations from the U. S. Osram likewise put up a plant in Chile and then, in order to protect the home industry, Chile was promptly induced to impose rigid tariff and quota barriers.

Under these circumstances why do the American producers adhere to the agreement? So far as electric light bulbs are concerned the answer is not fully known, but in part it is no doubt to be found elsewhere within the confines of the electrical manufacturing industry. A recently published letter of a vice-president of International General Electric affords a suggestive clue:

> It is to the interest of the Electric Vacuum Cleaner Comapny, the Edison Electric Appliance Company (both companies associated with General Electric), and similarly situated companies to refrain from selling in the territory of the A.E.G. (Allgemeine Elektricitäts Gesellschaft) because that company, being generally in a position to market their products in the United States might act conversely. This would result, *we fear*, in a general lowering of prices of these products in this country.[23]

In short, in consideration of other negotiating companies not "spoiling the market" for electrical equipment here, American producers keep their electric lamps from disturbing the situation abroad.

[23] United States Department of Justice, Press Release, January 18, 1945, p. 5. (Italics supplied.)

Business *haute politique* thus not only runs far beyond political or national boundaries but crosses normal economic boundaries as well. For economic factors might limit the scope of concerted business patterns of action to a single commodity or include, at most, its significant substitutes, together with items jointly produced. But in the international chess game of business *haute politique* not only individual companies and plants but entire industries and even governments are at times but pawns.

The agreement-fabricators in a basic chemical industry not only stabilized world prices but divided up world markets like so many pieces of pie. They caused various countries to have no imports despite differences in price levels making such trade highly profitable. They "dumped" in the markets of those refusing to join. They kept nations like Brazil from having an industry at all by securing pre-emptive option on the best resources (which were never developed). They used full line forcing on those who wished to buy the product from a prospective new Chilean producer and for several years paid the state-owned and -operated industry of communist Russia substantial amounts of free foreign exchange to stay out of specified areas.

Unlike the Mercantilism of an earlier day, the area of management is not a country nor a commodity, but a heterogeneous mass of property interests, patents, and capitalized preferred positions. Extent and security of monopolistic control, docile labor, even ability to manipulate legislative, administrative, and especially regulatory bodies have a money value to be zealously preserved. Offensively and defensively an industrial-commercial-financial empire is maintained, supranational, more powerful than the overwhelming majority of governmental units. Such is the stature and complexion of the Mercantilism, new in form and different in techniques but similar in goal, which comprises what business men regard as the "sound economics" of business *haute politique*.

V. *Business "Haute Politique" and the Volume of Production*

The type of arrangement and the extent of power over the activities of an industry necessary to enable deliberate discretionary decisions to influence, direct, or supplant competitive forces as the regulator of investment, production, and price are controversial problems deliberately avoided here. Whether all devices employed by organized business groups for securing permanence of preferred status, no matter what the activity, no matter how small or large the area or portion of the market involved, no matter what the commodity's elasticity of demand or supply, no matter how many or how few producers—whether all such devices inherently promote the public interest[23] or invariably tend to

[23] That is the position taken, for example, by Sarpedon (pseud.) *England's Service*

injure it,[24] or in how far such so-called "cartel arrangements" are per se good or bad is a matter outside the scope of this article.

The only point made here is that insofar as business agreements do limit competition prices will be sustained at levels above those that would exist if competition were allowed to operate freely. Ordinarily, output will also be less in accordance with the general rule that imperfect competition in the market for a particular product causes the marginal private revenue to the entrepreneur from selling an additional unit of the product to be less than its price, so that too little will be sold.

But the extent to which output will be restricted depends not only on the number and size of firms, on the nature of the product itself, and on the extent of product differentiation but on the number of stages in the economic process in which restrictive agreements are effective. Actually the amount of underutilization of economic resources and the departure in price and output in any given industry from that which would prevail under perfect competition is far less than that which one theoretically might expect, owing to the difficulty which the agreement-fabricators have in changing their position or ground, their distrust of each other, their lack of insight into world economic conditions of supply and demand, their fear of economic and political reprisals particularly from foreign governments, and their desire to establish an orderly regular mode of operation which so long as it remains unchanged usually attracts little public attention.

The economic theory applicable to many of these restrictive agreements has been admirably set forth by Dr. A. C. Hoffman in his notable study on *Large Scale Organization in the Food Industries*. There he distinguishes the case of the dominant firm from that of bilateral and of successive monopoly.[25]

Hoffman's case of the dominant firm applies to the situation created by many international business agreements. Rarely do these cover all the output of all the countries. In the Phoebus electrical cartel, for example, only the two largest American firms are members, representing about 70 per cent of domestic output. In such cases, as Hoffman's ingenious analysis demonstrates, the dominant firm or the so-called

(London, 1942). For similar argument see J. Anton de Haas, *International Cartels in the Postwar World* (New York: American Enterprise Association, 1944).

[24] Such comes fairly close to being the position of the study, *Cartels and National Security*, Part I, Findings and Recommendations, Part II, Analytical and Technical Supplement, Subcommittee Report No. 4, Subcommittee on War Mobilization of the Committee on Military Affairs, United States Senate, 78th Congress, 2d session (Washington: 1944).

On p. 9, for example, the report states: "It is argued that the good features of cartels should be saved. This argument assumes that there would be some good practices left when the restrictive aspects of cartels are removed. In truth, nothing would be left."

[25] See in particular his charts pp. 82 and 162, *Large Scale Organization in the Food Industries* (TNEC, Monograph No. 35, 1940).

"cartel" while assuming a position of price leadership, and taking the initiative in adapting its price changes to market conditions so as to maximize profits, will be limited by the large number of small firms which tend to offer a supply based on the curve of average costs for the marginal producer. If their supply curve is highly elastic, a restrictive policy will result mainly in the joiners losing a good share of the market; that is, the more elastic the supply of the firms not in on the agreement, the more elastic the demand for the controlled output and hence the less incentive for reducing supply. Ease of entrance into the industry is, of course, crucial.

While output is not as large nor price as low as it would be if both the large or dominant joiner and the small firms behaved competitively, it might be substantially below that which would exist if the large concern were to be broken up and superseded by a large number of small competitors—might, that is, if the advantages of large-scale organization from the standpoint of efficiency were sufficiently great to offset the limitation of output dictated by maximum profit.

There are a great number of industries characterized by bilateral or successive restrictive arrangements, one above the other in the marketing system. The chemical and the iron and steel industries are cases in point. Bargaining between such organized groups in some instances has developed *mantell kartelle* and ultimately the integrated concern.

Without repeating Hoffman's analysis, suffice it to emphasize his conclusions. They are, first, that two successive organized groups, one above the other, tend to raise prices and limit supplies more than a single one combining both their functions. Second, as the number of stages of successive cartels increases in the marketing system the situation so far as the public is concerned becomes progressively worse. Witness the cumulative hamstringing of housing construction in localities where each craft and trade is organized to "get its fair share." Thirdly, paradoxical as it may seem, in such instances of successive monopoly the public interest might be furthered rather than injured by a combination which telescoped the profit-maximizing process. Thus, in the domestic sphere, many observers have advocated the encouragement of integrated home building concerns in order to lower the cost of housing. In such cases the suppression of restrictive agreements among individual producers is considerably more important than the breaking up of large integrated combinations.

VI. *Effect of International Commodity "Haute Politique" on Other Governmental Policies*

Insofar as business agreements are international in scope and restrictive in effect, that is, raise prices, limit output, etc., they seriously

exacerbate a series of other economic problems and bedevil the application of sound governmental policies.

In the first place, they make it difficult for the nations of the world to remove tariff barriers. No nation will expose its industries to the unhampered operation of the business *haute politique* of foreign cartels. Not only must restrictive agreements be curbed if trade barriers are to be lowered, but the lowering of trade barriers constitutes a very effective method of mitigating the restrictive effects of international business agreements.

In the second place, the practitioners of business *haute politique* have made difficult the achievement of world monetary stabilization. For it is certain that insofar as restriction of output and raising of prices leads to unemployment, nations will be forced into unsound fiscal practices, depreciation of currency, and measures of economic autarchy ranging all the way from exchange controls and export subsidies to import preferences and bilateral quota arrangements.

In the third place, business *haute politique* has given enormous impetus to the modern left-wing movement toward socialization of industry. As soon as problems of prices, production, etc., are handled by negotiators, as soon as businessmen themselves demonstrate that they prefer planning and rationalization to the risks of the competitive market, the stage has been laid for government, particularly in a period of national emergency, to take over the industry in its entirety. It is no mere accident that France is now nationalizing precisely those industries which were characterized by the business *haute politique* of cartels, combines, and cartel-like organizations.

In the fourth place, business *haute politique* seriously impedes the smooth operation of international controls to be carried out under the auspices of the United Nations. It is suspected by consumer nations not represented and by smaller countries. It is feared by democratic peoples as an invisible government likely to corrupt democratic processes. Furthermore there are in Europe a number of liberated peoples who distrust big business and big industrialists, as well they might, inasmuch as these collaborated so energetically with the enemy and so little with the underground.

Unless business *haute politique* is carefully controlled, all mechanisms for securing a just and durable peace by international action based on trust will fail. This observation is by no means new. Nearly twenty years ago, at an International Conference on Cartels (which by and large gave them a clean bill of health) the Russian delegate, M. Obolenski-Ossinski, with prophetic insight expressed the opposition of his government in the following terms:

> Cartels, a) arrest industrialization in agricultural countries which under pressure from the more powerful states would be obliged to lower their customs duties; b) perpetuate

high customs duties in the more powerful states; c) overwhelm small countries unable to play an important part in the cartels; d) aggravate the struggle between European and American producers; e) increase prices in Europe; and f) augment the pressure of the European industrialists against the working class.[26]

VII. *Conclusion*

History has proved the cartel justifiers grossly in error. Actually the cartel system fostered an economic Balkanization of the world. It set up artificial economic states, commodity by commodity, each with its own government, laws, division and trade barriers, imposed and superimposed over one another with increasing complexity.[27]

Thus the economics of international commodity *haute politique* is basically the economics of Mercantilism. The area is, of course, no longer the small geographic state but rather the world market for a given commodity or set of commodities. The power and strength to be magnified is no longer that of a national sovereign but that of an international industrial empire. National states, useful for tariffs and other favors they provide, have jurisdiction over only a portion of the area which international business *haute politique* organizes and governs.

The resulting arrangements are, of course, designed to serve what in itself is the worthy purpose of increasing and maintaining net profits and long-range status. If only the slogan, "What helps business helps you," were invariably true! But unfortunately it is not. As is well known, business may make profits in two ways: one by increasing output, the other by "adjusting production to consumption." In fields of competitive enterprise each individual producer can improve his position only by increasing his production, for prices are out of his control. But where the chances of successfully exercising control are favorable, where the number of producers is small, another method of maximizing profits or minimizing losses is available; namely, that of reducing output and supporting prices. It is in these industries—in industries characterized by monopoly, oligopoly, monopolistic competition, or some other form of concentration of economic power—that business *haute politique* is most frequently encountered and most freely used, the various corporate bureaucracies studying continuously not only (as they should) how to minimize the costs and risks of production and distribution but also how to shift them to others and in particular to the ultimate consumers by enforced uniformity of prices, rigid production quotas, and compulsory division of sales territory implemented by tariffs and other discriminatory legislation.

The functions of government in these industrial empires may at first

[26] Quoted by Robert Liefman, *International Cartels, Combines, and Trusts* (London: Routledge and Sons, 1927), p. 100.

[27] See "No Peace with I. G. Farben," *Fortune*, Sept., 1942, p. 109.

be very small and relatively harmless, such as exchange of technological data. But inevitably the process of making profits by agreement tends not only to destroy competition but to bring about an atrophy of enterprise, in the generic sense of the term. Business *haute politique* tends inherently and inevitably to subject not only the participants in its agreements, but the nonjoiners, the labor force, the consumers and the public to its service, its control, and its authority. The processes of empire building are insatiable.

Consequently, the preservation of free enterprise requires the establishment and perfection of areas and institutions and ideals which make these industrial and financial empires completely subordinate to the inherent productive capacities of the people. Those who engage in international commodity *haute politique,* whether merely representatives of private corporations or clothed with governmental power, inevitably become intoxicated with the power they wield. No democracy, if it is to survive, can afford to let such business *haute politique* go unchallenged. For unlike democratic political control which derives its just powers from the consent of the governed, these economic governments make decisions affecting the lives and fortunes of thousands of laborers, consumers, and small businessmen without even attempting to grant them hearing or representation. Inevitably a conflict of jurisdiction arises with the welfare state—a conflict which can only be resolved either by government abdicating its function of protecting the economic welfare of its citizens or by concentrations of economic power being split up, limited, and, so far as possible, eliminated. All power corrupts and absolute power such as has been wielded in the past by international cartels corrupts absolutely.

THE ROLE OF CARTELS IN THE CURRENT CULTURAL CRISIS[1]

By Robert A. Brady
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The belief persists that cartels are in some devious way "unnatural." Yet nothing can be further from the truth. They are but one of several kindred species of a common genus whose ancestral tree is rooted in the sanctions which underlie the modern business system as a whole. They are not strange and deformed branches ruining an otherwise symmetric tree, nor deadly fruit feeding parasitically on the benign limb. On the contrary, they are as old as the history of business enterprise, for collusion, as Adam Smith clearly recognized in his time, "is the usual, and one may say, the natural state of things which nobody ever hears of."

Since Smith's time the opportunities presented "masters" for "constant and uniform combination" have multiplied many fold; a bewildering variety of new techniques, new laws, and regulatory apparatus have swiftly spread collusive practices throughout the contemporary business world. Bit by bit these practices, not infrequently championed as expressions of free enterprise, have resulted in tight mortise between state and private activity with the result that we are coming out with a type of neo-Merchantilism, graduated privilege, and universal protection wherein all major interest groupings operate on the assumption that the law must both "facilitate . . . assembling together" and "render [such assemblies] necessary." And everywhere the complex interdependencies of costs, prices, markets, and incomes associated with modern mass production and mass distribution industrial technology make return to the simple and obvious system of natural liberty seem more unnatural still.

However distasteful it may be to admit, it is hard to escape the conclusion that the cartel is more natural in contemporary times than is free enterprise in its true classical meaning. Not only more natural, but also, given this two-way alliance with industrial technology and the state, well-nigh inevitable under one form or another. Consider briefly the organizational implications of the fact that we have been developing over the past century everywhere a type of industrial technology, supplemented and extended by companion techniques of collective organization and control, which is inherently of an integrative character. The

[1] In the interests of economy of space, footnotes in the original have been deleted. These provided heavy documentation for several of the more controversial points; their absence may cause the argument to appear somewhat sweeping and at points, perhaps, dogmatic. This is unfortunate; under the circumstances it is unavoidable.

multifarious efforts to make rational use of the resultant and ever widening production, price, market, employment, and standard-of-living interdependencies tend cumulatively to edge the individual business unit into manifolds of policy decisions whose appropriate frame of reference is increasingly of a trade, industry, regional, national, or international character. On the strictly economic merits of the case, super-enterprise co-ordination or "planning" of some type or other is every where on the cards; so far as the signs may be read at present we shall see in the future only more of it, never less.

With respect to economic coverage, an adequate grasp of the relevant and converging historical trends will show this observation to apply (a) without important reservations to (1) all so-called "public service" and "natural monopoly" industries, (2) the exploitation of all natural resources whose products are intended for the market, (3) the supply of the leading functional services of banking, finance, and insurance, and (4) the production and distribution of the bulk—perhaps all—staple and standardized producer and consumer goods, and (b) with qualifications, and in a less rigorous manner, to the supply of (1) luxury, recreational, and cultural industries, trades, and services, and (2) small-scale economic activity working on the relatively unprofitable fringes and in the minor interstices of the economic system as a whole.

There is no space to argue the merits of such a classification or the propositions on which it rests—though I am convinced that both can be proven to the hilt—but so far as they may be allowed to stand for the moment it follows therefrom that regulatory and antitrust controls which ignore the inherently collective character of modern economic activity are ultimately doomed to failure. The danger is that thoroughly laudable attempts to advance and protect the public interest may, by virtue of an antiquated view of the industrial order, reduce such an agency as the Antitrust Division to the plight of the Red Queen in *Alice in Wonderland*—to her plight, but with this difference, that the Division must execute a rearguard action in which it must run backwards with increasing speed in order to maintain itself in the same forward position.

The trouble, the prophets of the "New Feudalism" of planning to the contrary notwithstanding, is not with the forces that promote collective effort, or the fact of collective effort itself, but with the molds into which activity is poured. When "normal" business practices are channelized by cartels or their equivalents the result is simply that one out of several vital interests is given direction of a collective activity, and that the interest group in control is one with whom promotion of production, economic stability, the advance of science and technology, and the improvement of the common welfare are not—indeed, cannot

be—primary but, at best, secondary objectives. They are no more and no less nefarious than this. If an analogy may be borrowed, just as "truth in advertising" means not the descriptively accurate or theoretically coherent but the sales effective, so production or the public welfare in cartel procedure is not the object but haphazard and necessarily fortuitous by-products of its numerous caveats. Advertising, as the voice of its master, business enterprise, is not directly concerned with the amount of scientific truth contained in its copy because persuasion, not truth telling, is its job; cartels are not directly concerned whether production be high or low, or technology advanced or retarded—except as strategy dictates in pursuit of different and dominating objectives.

Traveling the high road towards collective organization from which there is no present prospect of our turning back, what comes, then, of permitting economic activity to be guided by helmsmen without a dominating interest in cargo or the safety and welfare of passengers or crew? A second analogy may prove useful. After 1934 the Nazis began a process of selling back government owned coal, iron, power, banking, and other holdings to private interests. This process they called *privitisierung*, or "privitization." Borrowing this useful, if ugly and repellant term, we see that privitization is the opposite and inverse of nationalization. Under privitization, private individuals take over public functions; under nationalization, the public takes over private properties which have now become, for one reason or another, peculiarly vested with a public interest. Under the one, public ownership and management gives way to private privilege; under the other, private prerogatives give way on behalf of the public welfare as a whole. In both cases the public interest is at stake.

Cartels Are Cases of Privitization of the Public Interest. The power they exercise is similar to what we would find if the city streets and country highways were to be turned back to private concessionaries, if tax collectors were to become agents of tax-farming enterprises, or if the Navy were to be sold to a chemicals trust. Cartels exercise power to fix prices, to divide markets, to control total output, to limit quality improvements, to eliminate services, to retard technical change, to hold back new ideas and inventions, to prevent the establishment of new firms, to channelize the flow and control the volume of business within a country or between nations, to hold back the industrialization of new countries. They may do one or all of these things, and many others besides. And because they may, private vested interests may determine the level and distribution of the national income, the volume and location of jobs available, the opportunities of making a living and choosing a profession, the cost of living, the prosperity and stability of the coun-

try, the national and international division of labor, the political as well as economic relationships between nations and the possibilities of war and peace, and the chances of victory or defeat if and when peace gives way to war. Cartels can, have been, and are exercising such influences today all over the world.

It is not necessary to argue that cartels always act against the public interest, but only that they may if and when they choose. It suffices to point out that (1) through their controls private individuals serving private and narrowly minority ends possess the power to make public decisions affecting adversely majority interests on both the domestic and international scenes, and (2) that the cases in which the public welfare is served by such collusive action on behalf of private ends are exceedingly rare indeed. In general they are enabled freely to tax the public which they neither do nor can represent, and this modern system of taxation without representation is, in its ultimate social and political implications, more onerous, more elusive, more pervasive, and enormously more powerful than that which stimulated the popular revolution of 1776.

The evidence to this effect is so voluminous and so convincing as to permit of little argument. For the past fifty years the data have been heaping up in little-read government reports, special investigations, court records, and in a seeming infinity of individual studies both at home and abroad until not even the most diligent specialist can keep up with the tidal flow. And almost without exception cartels are found raising prices, restricting production, rendering difficult the establishment of new businesses, retarding the introduction of new products and slowing down technical innovation, and exercising still other and more ingenious methods of making unseemly gains at the public expense.

So also did the feudal lords, the earlier despots—benevolent or otherwise—and preindustrial monopolies in their times. Cartel privitization, however, differs from all former types in a number of ways. Unlike feudalism, it is a by-product not of disintegration, but of unification, not of decentralization, but of centralization. Unlike political despotisms it is not imposed from above, but permeates, like cancer cells once they have invaded the lymphatic glands, the whole body economic. Unlike the cartels and monopoly controls of the ancient and medieval worlds, those of modern times place a muzzle over a comparatively new and enormously virile industrial technology. Though the term "cartel" is still somewhat strange to American ears, the practice permeates American economic life, and in many fields—such as most of the metallurgical, chemical, and other raw materials industries, the building industry, and the durable and processed foods branches of the consumer goods production and distribution industries—cartel control is virtually coter-

minous with the industry. No amount of surgical excision will cure, for the condition has become pathologic and it is now natural for the dominant business cells to show this morbid behavior. The usual ministrations of shock treatment in the antitrust indictment, as Thurman Arnold has repeatedly pointed out, are as apt to spread the malady as to check it, and the occasional resort to kindliness and understanding via the consent decree can hope for little more.

Cartel practices are not, of course, to be banished by benefit of semantic excommunication, but it may also be true that the cartel compact is no longer required to give the cartel effect. Consider the language employed by the Department of Justice in its indictment of the rejuvenated Tobacco Trust where it found the "defendents through a common plan, understandings and concerted action have fixed, controlled, manipulated, and tampered with the prices, conditions, and instrumentalities of . . . marketing . . ." to effect what was at bottom a highly developed series of cartel controls. *"Nothing more was essential,"* the indictment goes on to state, *"than that some character or manner of communication take place between them sufficient to enable them to reach a definite mutual understanding of the common unlawful objective or purpose. . . ."* (Italics in the original.) The adjectives are significant, but what is most important is that they are in nowise new. Similar terms are to be found all through the antitrust literature of the last half-century. In America, that is to say, cartels have in a certain sense long since gone underground.

Underground, however, is no longer an adequate characterization, for, by a somewhat strange but cumulatively effective transmutation of the issues, it has become possible for collusively-minded American business at once to advance cartels and cartel-like practices while coming out in opposition to these very same cartels and all forms of patently monopoly control. Four developments favor the success of this disappearing act: (1) infiltration of cartel-minded interests into the inner citadels of government; (2) discovery of arguments and methods for creating a climate of opinion favorable to privitization; (3) development of tactically superior, more comprehensive, and more effective structural equivalents for implementing collusive programs on the one hand and for circumventing and/or realigning opposition on the other; and (4) some favorable conjunctures flowing out of consciousness of the new role of the United States as a world imperial power. Space limitations prevent more than a cursory glance at each.

1. *Infiltration of Government.* (a) *Law:* The NRA plan for wholesale cartelization of American economic life was not an accident, nor something imposed by government on business. Something like it has been effected in most industrial countries of the world, and since its

demise in the United States, a host of federal, state, county, and municipal laws have been lobbied through by business pressure to give benign political sanction to the formula of "self-government in business." The formula itself is not only pro-cartel; it is the first step on the broad public highway leading to the corporate state. (b) *Lawmaking:* Big business is everywhere "going political," and close examination of the record will show that direct representation supplemented by lobby pressures and the support of collateral groups which may on occasion be rallied behind its programs has reintroduced a degree of effective business influence over legislation which vested interest groups have not possessed since the decades of the railroad scandals and the "shame of the cities." (c) *Administration and Regulation:* So extensively have spokesmen and direct representatives of collusively-minded, and particularly big, business come to dominate policy-making positions in the leading executive departments of the federal and most of the state governments that it is well-nigh impossible for one branch of government to prosecute without directly or indirectly indicting officials of other branches. Not even the exigencies of wartime emergency smooth the way. To an increasing extent prosecuting agencies will be compelled from now on to sit on their hands. As in Mercantile times, the political policies of Mercantilism are swiftly becoming coterminous with national and world-encircling private interests. To change the figure, the days of Palmerston and Disraeli are upon us; the British, better schooled in these matters than we, are continuously astonished that we are yet surprised to find it so.

2. *The Favorable Climate of Opinion.* Foul weather favors the growth of certain forms of life better than fair; general—one is almost tempted to say profound—ignorance of even the terms, let alone the issues of discussion, is the biggest asset public relations experts for cartel-minded interests possess. Discussion in the daily press, over the radio, in media serving labor, farming interests or ultimate consumers, or even in much of that catering to more sophisticated audiences does not typically rise to the level of adequate grasp of the issues at stake, and hence tends to throw no weight behind prosecuting agencies even when the issues are clear cut. This well-nigh total intellectual vacuum provides a perfect medium for the opinion-making of the public relations counselor who says free enterprise when he means monopoly, who speaks of laissez faire when he intends carte blanche, who talks of planning when he plans only the absence of public control of it, who condemns foreign cartels while his backers lobby for laws that make them compulsory at home and while he lobbies for government support for the advancement of his own abroad, who dismisses as materialistic objections to collusive control which restrict production and jack up

prices, who talks of the stimulating effects of the property incentive whilst private property is disappearing down the throats of the corporate giants (and that for reasons and to an effect which are the reverse of the ones given out in his literature), who glorifies free contract while the bulk of it becomes increasingly lop-sided and imposed—as in feudal times—by the stronger on the weaker, who condemns in the name of the American way as communistic even attempts to restrain monopoly restraints, and so ad infinitum.

The task of the spokesman for cartel interests is enormously simplified by the ability of his backers to command the bulk of the daily press, the radio, most of the media reaching farmers and much of that read by labor, and by command of the tools of advertising. As for this latter, since the thirties, advertising has been shifting to the sale of ideas. New and enormously potent techniques have been learned during the war, and although wartime advertising has in many respects been a flop, nevertheless the staffs, the funds, and the methods of influencing opinion are there to be exploited to the full. The funds available after the war will be close to double those of 1940, and the shift is now towards influencing the general outlook of the opinion disseminators of schools, pulpits, and public forum. The self-same people, now seeking the mantle of *pro bono publico*—looking upon themselves as stewards or trustees of the common welfare—are the principal violators of the law relating to exercise of monopoly and cartel powers.

The feudal system was one of authoritatively directed monopoly rights. Its apologists idealized it as a benign growth from a synallagmatic compact in God's divinely graduated system of stewardship for the governance of this erring world here below. So, also, though thus far without benefit of clergy, argue spokesmen for the privitizing power nuclei of our times. The general confusion regarding the causes, the stakes, the objectives, and the social philosophies in conflict during the second World War, still further widening the gap between fiction and reality as Cherne has indicated so clearly in his recent book, makes this process easier still.

3. *Machinery for Effecting Cartel Controls*. Here, as well as broad, it is becoming increasingly difficult to tell where cartels leave off and trade associations, federations, and confederations begin. But this much is clear, that the political importance of the controls in mind cause the cartel issue, with each new extension of influence, to transcend the cartel mold. The trade association is swiftly becoming both the residuary legatee of cartels and the co-ordinator of trade politics vis-à-vis not only other and small business, but also the government, labor, farmers, and the general public. Trade associations enjoy considerable public esteem, and only in the rare and exceptional case will it seem

desirable to indict them. Any agency attempting to do so is apt to find itself chewing cotton, even though it may be fighting an octopus, since the trade association can be made readily to appear to be a mere congregation of misunderstood and right-minded gentlemen seeking only to serve the common good. Meanwhile, staffed with experts gradually becoming conscious not only of economic but also of the political, social, and possibly even the cultural implications of the issues at stake, the trade association will have increasingly fortified itself behind federal and state laws whose titles appear not to extend—as they do—but to curb arbitrary use of cartel power which they do not. Such already is the origin and effect of much—perhaps most—of the agricultural marketing legislation, laws promoting fair trade practices, and resale price maintenance, laws relaxing antitrust regulations, and regulations enforcing building code and health inspection laws, to mention but a few of the outstanding categories.

More than that, the more acute trade associations are learning how effectively to put across their own programs on organizations serving small business and other interests. The outstanding cases here involve liaison with the dominant farmers' groups, though educational, consumer, and even labor organizations are being in many cases brought into line. Where trade associations, like cartels, in their turn fall out amongst themselves, or are rent by internal dissention, each several grouping will use similar techniques and methods for effecting particularistic ends. Despite such conflicts between groupings, however, there is steadily evolving a business higher command, of which that long associated with the little-known Yama Yama conferences constitutes merely one of the more spectacular cases.

4. *Some War and Postwar, Cartel-favoring Conjunctures.* There are three of these which deserve special attention. First, war contracts have enormously accelerated concentration of economic control by (a) enhancing the relative importance of the giant concern, (b) making public officials out of leading corporate representatives during a decisive life and death period for small enterprise, and (c) reducing the small competitor to a position of dependence bordering, in many cases, a status of permanent and inescapable vassalage. Second, now that the days of lofty war idealism are largely past, and the hard-headed aftermath of *Realpolitik* is at hand, it seems clear that we will come out of World War II as one of three great space economies with our principal rivals—in the absence of a real program of international security based on common acceptance of democratic principles—being Great Britain and Russia. British rivalry will, on present showing at least, be highly organized within the Empire and for purpose of economic aggrandizement abroad. From this follows the consequence that in order to compete we

too will demand and will receive the right to cartelize our own economic activity—though with benefit, no doubt, of a loftier and less obnoxious phraseology of economic combat. Cartelization abroad carries with it an enormous stimulus to cartelization at home. And from Russian rivalry cartelization is bound to gain a certain ideological coloring which is already serving the useful purpose of squelching criticism of cartel measures both at home and abroad. Third, the social necessity of avoiding, on pain of risking serious internal political upheaval, large-scale postwar unemployment means business acceptance of one or another version of the Keynesian analysis. All versions call for close policy interlinkage between government and business enterprise. It is worth while recalling that Keynes's own view was that the future of such co-operation belonged to what he once termed "national capitalism." And this view is perfectly attuned to the pressures which in the United States are gradually reinstituting the cartel controls of the NRA type.

From all of which I conclude: (1) that collective economic action is inescapable, (2) that under the sanction of the so-called "free enterprise" system (which they destroy), cartel controls, by whatever name they go, are on the cards, and (3) that these controls are being exercised by agencies in a manner and an environment where they cannot effectively be checked under existing law, nor by customary means. If checked at all, I believe it can only be done by a most thoroughgoing and comprehensive democratization of economic control throughout the depth and breadth of the American economy, in detail and at large. If not thus transubstantiated, it seems that only a successful type of sufficiently benevolent and prosperous imperialism can postpone crystallization of power and posing of issues in such a way as to avoid another and possibly even more terrible debacle than the one we are now going through—not to mention the growing hazard of a right-wing internal totalitarian and home-grown version of corporative economy.

DISCUSSION

Ervin Hexner: The significance of international cartels in the recent past has been both greatly under- and overrated. They have been underestimated because of the lack of empirical research and the consequent dearth of information on the structure and operation of international markets. Their significance has been overestimated both by those who have regarded them as possible primary mechanisms for the establishment of harmonious international economic intercourse, and by those who have looked upon them as devilish instruments responsible for the disintegration of the community of nations.

The following admittedly fragmentary statements may introduce a discussion on international cartels:

International market co-operation of private entrepreneurs has become and may again become an instrument of political warfare. This does not mean that it must become such an instrument, or that it is primarily or inherently such an instrument. Like a mechanical tool, it may serve socially undesirable, neutral, or desirable objectives.

International cartels *as such* do not have a collective psychic structure and political and economic volition. What looks like volition is the resultant compromise of *essentially* separate (frequently basically conflicting) interests and ends. A cartel is a mosaic composed of independent entities though it may appear on the market to the superficial observer as an organic whole. An international cartel does not have a specific political value system—an ego of its own, a group mind—as domestic cartels may sometimes have. Its members, belonging to various nations, do not divide their loyalties; they only compromise their interests. Giving cartels a "personality status" frequently diverts responsibilities from those entrepreneurs who direct cartel activities.

Cartel policies are meaningless without reference to a particular historic and economic setting. International cartels do not have significant problematical elements of their own if segregated from the broader framework and issues of international economic intercourse. The experiences gained from the operation of international cartels in the politically unique period of the thirties may be applied only with many reservations to a future regime of hoped-for political security. Restrictionalism is frequently the direct or indirect consequence of political insecurity and fear of political aggression. In a world not pervaded by such restrictionalism, entrepreneurial co-operation will offer problems quite different from those of the period prior to the second World War.

For any generalization about international cartels to be significant, it must be based on comprehensive research, analysis, and appraisal of all important international markets, cartelized and noncartelized. It is impossible to make reliable comprehensive generalizations with reference to international trade mechanisms on the basis of selected examples now available.

No sound policy on international cartels can be framed until certain perplexities inherent in almost all discussions of cartels are clarified. Such are: (a) If the rational entrepreneur considers competition risky and costly, per-

haps ruinous, from the point of view of his private interest, can he be expected nevertheless to compete because of requirements of public interest? (b) Does the absence of express or tacit marketing agreements automatically result in active competition? (c) Can active competition be enforced in democracies by legal mechanisms?

High-scale employment, a more equitable distribution of the social product, minimum living standards, will probably become primary political postulates in future national and international politics. These postulates imply a considerably enlarged volume of international production as compared with prewar years. Public and private restrictionalism which acts counter to these political postulates can be broken only in an atmosphere of comprehensive economic and political co-operation of nations.

The political and economic policies of democratic nations (for example, as in the United States, Great Britain, Canada, Holland up to 1939) are far more complex than the ideas conveyed by terms like planning and market economy. A practical economic problem is not solved by mere assignment to a governmental agency for planning. Planners, unless they intend to substitute their own choice for the aggregate of choices of freedom-loving people, will have to present the voters with alternatives, indicating the values that have to be given up when one choice is made rather than another. Market economy can and will continue to perform a necessary and useful task in political democracies. However, the degree to which democratic governments will rely upon the impersonal forces of the market will depend upon more material factors than threats that every kind of public and private business regulation necessarily leads to fascism. Neither the faith in the all-pervasive operation of the Invisible Hand nor the belief that public administration is essentially arbitrary is sufficient guide for practical decisions in daily actions of parliaments, executive agencies, businessmen, labor, and voters. Authors in the field of market co-operation, before suggesting public policies, must descend to the prosaic investigation of markets and behavior patterns of consumers and businessmen.

Those who regard an all-embracing system of competition in international trade as realizable have not arrived at this view by *comprehensive* investigations of markets and men. Such investigation would lead to more modest but more realistic expectations and suggestions. Extreme liberals regard most of the public and private market regulations in free countries as democratic denials of democracy. And because many of them feel that competition does not always represent the rational action of the private entrepreneur (although it may represent the rational interest of the public), and because they realize that sharp competition has the inherent tendency to destroy itself, they suggest an instrument which they denounce when employed by planners. That instrument is international compulsion, so sharp and pervasive that it would keep people (unless they quit business) competing even when they do not regard it as rational. Legal regulations (such as the Sherman Act) may, of course, be practicable to prevent socially undesirable market conspiracies, and legal arrangements may be useful to make competition possible and attractive.

However, the enforcement of all-comprehensive active competition on the international market has not been experienced up to now.

Those who are familiar with discussions on international cartels know that three schematized solutions have been advanced. First, is the substitution of private marketing controls by international public agencies operating according to principles agreed upon by the governments of producing and consuming countries. Second, is the suppression of private international marketing schemes by legal and political measures (such as an international Sherman Act). This second solution implies that an alternative to almost all forms of controlled international markets is available in a workable scheme of competition. Third, is that co-operation of private entrepreneurs on international markets should be tolerated, with the reservation that governments agree on principles of supervision.

Cartel discussions are frequently confused by terminological discrepancies in the cartel concept. For the purpose of this discussion I would like to offer my own tentative definition of an international cartel. It is a voluntary, potentially impermanent, business relation of a number of independent private entrepreneurs belonging to two or more nations, which by co-ordinated marketing significantly affects the market of a commodity or service.

The co-operation of private entrepreneurs on international markets has, of course, very significant repercussions upon international intercourse in general, and upon the domestic social situation in many nations. Forms in which international trade is conducted and whether or not entrepreneur unions are legally recognized or tolerated, comprise political problems par excellence. In fact, almost all recent publications on international cartels are politically oriented. Also, economists, in discussing problems of cartels, switch more and more frequently to political arguments. Authors of modern studies on cartels are implicitly advocates of the public interest. Conversely, there do not exist among modern economic treatises on cartels discussions of the conditions under which it would be advantageous for the entrepreneur to compete or to combine. One might ask whether an exhaustive practical discussion of cartel advantages and cartel techniques from the point of view of entrepreneur interests by a courageous devil's advocate would not be instrumental to clarify considerations of public interest as well. However, there is little prospect for the publication of such an unpopular study. That is why the differences of opinion of various authors on cartels mirror solely their conception of public interest.

The opposition to international cartels is strongest in four spheres. First, many serious statesmen and scholars regard co-operation of private entrepreneurs on international markets, on the basis of that empirical material which has been revealed up to now, as necessarily undermining political democracy in both the national and international field. Second, cartels are accused of blocking technological progress. It should be noted that such outstanding industrialists as Samuel Courtauld frankly admitted that patents and technological experience were bought in order to prevent their use. Third,

international cartels have been indicted on the grounds that their activities invariably result in diminishing the total volume of international trade and that they maintain prices on a higher level than would be the case in their absence. From this point of view, entrepreneur co-operation resulting in balanced expansion of trade is considered as highly improbable. Fourth, according to many critics, entrepreneur coalitions on international markets are instrumental in keeping in the market "high-cost" producers. It is impossible to discuss here to what extent these accusations are justified.

According to experience in cartel discussions, passion is frequently in inverse proportion to the energy devoted to market investigation. Restrictionalism can better be attacked by minds that do not abhor the dry routine of digging out prices, tonnages, freight rates, and technological formulas. One may note with great satisfaction that responsible public officials, economists, and political scientists gradually recognize the necessity of extensive empirical research in this field.

ROBERT M. WEIDENHAMMER: The papers by Messrs. Brady and Kreps have widened the conception of that modern witch, the cartel, to include the whole gamut of political issues rather than only that always unsuccessful economic institution, the industrial cartel. If we should assume that businessmen habitually succumb to Circe's song of market control—and the legend tells how the sailors who listened to her became swine—why not send her and those under her enchantment to the Brookings Institution rather than barbecue them? Why not test cartels by cost accounting and investment analysis standards and thus debunk them rather than surround them with the allures of sin?

At the end of World War II certain industries will face drastic adjustments. The capacity to produce rubber, copper, aluminum, and magnesium has been expanded beyond any needs of the postwar world economy. If the world demand for aluminum should continue at only its prewar rate, present capacity could not be fully utilized before we enter the next century.

World War I left some European countries with greatly expanded war industries whose excess capacity was often further aggravated by the shrunken national boundaries of their home markets. Such discrepancies between capacity and home markets invited the policy of dumping in the markets of other countries, especially of those newly created nations that were still experiencing the growing pains of establishing their own national industries. Two factors enabled a country, at least temporarily, to dump: (1) if its currency was declining in the world money markets, and (2) if its export industries were protected in their own domestic market by tariff or cartel policies to such an extent that they could afford to dump abroad at prices below their total cost of production. As long as direct costs were covered, dumping could be used to destroy struggling young industries in other countries.

But neither national cartels nor tariffs are guarantees of the continued success of such a policy of high domestic and low export prices, particularly when the industries of other countries retaliate and adopt the same practices. Dumping usually defeats itself. Because of the domestic consumers' interests

and because of the fear of foreign retaliation, tariffs can seldom be raised high enough to permit dumping on a large scale. Nor can national cartels, generally speaking, raise the prices in the domestic market sufficiently, if foreign tariff walls, built to forestall dumping, have to be surmounted to reach an outlet in the foreign market. Finally, the other countries may start protecting their industries to such an extent that they can retaliate and dump in the domestic market of the "aggressor" nation. The absurdity not infrequently ensues that two countries export the same product to each other at prices below those quoted in their respective home markets. Likewise, certain valuable natural resources turn out to be a curse rather than a blessing. Coal, for instance, following World War I, was usually sold at lower prices in countries that had none, such as Italy or Sweden, than in countries, such as France and Germany, that mined and exported it under cartel regulation.

It is precisely such nationalistic trade policies pursued *ad absurdum*, that create international cartels as peace treaties among national cartels. By dividing up world markets, international cartels end the period of economic warfare and guarantee the success of national cartels and tariff policies. International cartel agreements tend to decrease the physical volume of international trade, but they put an end to dumping and restore a degree of stability to the domestic as well as the international markets. It has even been argued that international cartel agreements make tariff walls unnecessary and may help to break them down, but this would be true only if two conditions were met: (1) if such international cartels include permanently all competitors in all participating countries, and if all countries producing the commodity in question are a party to the pact; and (2) if prices to the consumers are substantially lower than under a tariff system.

Needless to say, such a state of affairs has never been achieved. An analysis of the effect of national cartels on the domestic economy will show that these two prerequisites are also most unlikely ever to occur.

While the merger and trust movement has usually flourished in periods of prosperity, cartels have been formed in time of adversity. Corporate mergers have to be financed either out of retained profits or from flotation of securities. When depression strikes or when drastic economic dislocations, like those created by the end of wars, curtail their market, independent producers huddle together in cartels to seek immunity from the threatened effects of laissez faire. To provide such immunity a cartel must strive to achieve and maintain a monopolistic control of output and price policies.

It would indeed have been an ideal solution for the difficulties of European industries if the price and production policies of cartels could have achieved all the noble claims their advocates have advanced. The International Economic Conference, held at Geneva in 1927, under the auspices of the League of Nations, discussed the cartel problem at length and with a considerable degree of sympathy. A special memorandum on "International Cartels," prepared by Professor D. H. McGregor of Oxford University and printed by the League of Nations, appears to have expressed the then-prevailing opinion in the two opening sentences:

> It is to be observed at the outset that the idea of regulating output by concerted arrangements between producers is no longer seriously opposed by economic theory or public policy. The larger the unit of business which is necessary to the most efficient production, the greater the capital losses which result if this adjustment is made by the failure of certain firms, and the more severe the price wars entered on to decide which firms are to fail.

In the face of this sympathetic attitude toward cartels, as shown in 1927 by European governments and their economic advisors, let us briefly reexamine the records of certain cartelized industries. How do their records stand up under three tests that may be assumed to be criteria generally agreed upon today by economic theory, public opinion, and public policy in this country: 1. Did cartels foster the full employment of all resources and did their price policies have a favorable effect on the stabilization of the world business cycle? 2. Did cartels succeed in rationalizing expansion policies and reduce the faulty investment of retained earnings? 3. Did cartels preserve medium and small business concerns from being absorbed or crushed by big business?

Contrary to the claims of cartel advocates, the record of cartelized industries in Europe offers abundant evidence that cartels have reduced employment, aggravated depressions, hastened the demise of small business, and fostered faulty investment in overexpanded plant facilities.

With respect to the first test mentioned above, as long as we have economic expansion in a society characterized by private property, the profit motive, and free competition, we shall also have business cycles. Public policy can merely attempt to reduce the speculative following of the innovators in periods of expansion and to maintain purchasing power in periods of recession. Hand in hand with a public works program must go the prompt downward adjustment of prices to enable industry to better maintain the physical volume of production and the number of gainfully employed. Maintaining production does permit the use of existing plant facilities close to optimal rates, thus keeping unit costs of production at a minimum.

The subnormal rate of use of capacity causes progressive unit costs, especially in industries with a high percentage of fixed overhead. The monopolist, be it a trust or cartel, will usually be inclined to maintain prices instead of reducing them as a means of stabilizing output around the physical level representing the optimal use of the capacity of existing plant facilities. As a result of keeping prices up, sales will drop and unit cost of production will rise. Profits will, therefore, disappear and the cartel will try to restore them by actually raising prices above the level that prevailed in prosperity.

This delay in the prompt downward adjustment of cartel prices to match the reduced purchasing power of consumers tends to aggravate and to prolong depressions. Output and employment among the cartelized industries are reduced more drastically than would be the case if prices were lowered promptly, and cost reduction in the usually non-cartelized finishing industries is thereby made more difficult, thus forcing them also to lay off more men than might otherwise be necessary.

In reply to question 2 it has been claimed by the advocates of cartels that agreements of this sort would be able to prevent the social waste of capital resulting from the faulty disposition of savings made by independent concerns

in a competitive industry. Undoubtedly, the process of new capital investments in a system of free competition is inherently wasteful, because every concern tends to expand in order to take advantage for itself of that expected increase in demand that all concerns hope may benefit the industry as a whole.

The emergence of every new industry into the first period of relative equilibrium—and the end of every period of prosperity for all industries—leaves behind investments in production, selling, and transportation facilities that may never justify their existence by earning a proper return. It is therefore easy to comprehend why an economic institution that would advise or even force the members of its industry not to expand existing production facilities and not to promote new concerns in excess of a reliably to-be-expected increase in demand, appears most meritorious from the social as well as the private point of view.

But what evidence of success along this line of endeavor is provided by the expansion policies of German industries that had organized themselves in cartels to meet the evils of free competition? A look at the record shows clearly that cartels brought about the very opposite effect from what their advocates had claimed. Instead of establishing an "industrial planning board" to budget the yearly expansion possibilities for the industry as a whole and prorating this increase to its members through the use of quotas, German cartels actually caused the overexpansion of plant facilities to a larger degree than could be found in any competitive industries.

For many years the strongest German cartel was that guiding the policies of the potash industry. It was stated that in 1913 about 2 billion gold marks were invested in the development of the potash industry, while an amount of 100 million would have been sufficient to provide the output that could be sold even in prosperous times.

Another basic industry with a strong cartel organization was the German iron and steel industry which, it was flatly said in 1930, expanded existing plant facilities and constructed new plants solely to fill allotted quotas and to obtain claims against higher quotas at the next meeting of the cartel for quota allotment. This race for expansion was practiced while existing plant facilities were more than sufficient to satisfy any peak demand and while every new plant automatically required heavy write-offs of the old plants. Under a system of free competition heavy losses would have been suffered and the weaker concerns would have become insolvent. Under the protection of heavy tariffs, however, the cartel would increase prices to a level which covered the depreciation and the return on the capital of even the most inefficient members. The high price of steel in the sheltered home market increased the cos of the finishing industries that had to compete in the world market and that could not afford to compensate themselves for their low margins of profit or even losses in the world market by charging higher prices at home.

In response to the question in criterion 3, advocates of cartels in Europe, perhaps with an eye toward political elections, praised cartels as institutions that preserve small businesses which otherwise would be forced out or absorbed by big business. What evidence is there the cartels have ever estab-

lished protection for the small concern? Let us consider the two alternatives of cartel price policy: If the cartel established prices so high that even the most inefficient member of the cartel made a profit, then the more efficient members used their differential income to expand their plants and to threaten the cartel at its next meeting with dissolution if the quotas were not to be increased. If their request was not granted, the cartel fell apart and the threat to the smaller units of the industry was intensified. On the other hand, if the request for larger quotas by the low-cost units was granted, the cartel survived this crisis but the smaller concerns had to be satisfied with a reduced share of the market. There was nothing to stop the large and low-cost producers from playing this game again and again, until the little fellows had to give up.

If, however, the cartel fixed prices on an *average-cost* basis, nothing was gained for the high-cost members who usually chose to sell their production quotas to the efficient ones, thus increasing the fixed charges of the latter. The defenders of cartels asserted that purchasing of quotas was more profitable for the buying concerns than standing up against the cut-rate competition of the low-grade producers, but by using this argument the cartel friends reduced the problem to a matter of calculation in dollars and cents and so deprived themselves of the right to pose as the protectors of small business.

If not protected by patents or natural resources, monopoly cartels had to adopt this latter price policy to keep outsiders from mushrooming up under the umbrella of high cartel prices. Instead of keeping the small enterprises going, cartels then resorted to quota trading, to buying up and closing down of inefficient plants, to the absorption of small plants by large concerns and to the merging of small plants, all developments typical of cartelized industries. It is true that high-cost concerns might have fared better in cartels than under competitive conditions insofar as they were able to obtain better prices for their plants, but this depended upon their being so numerous that their leaving the cartel would have endangered the profit prospects of the low-cost members.

The price paid for the plants of high-cost concerns increased the cost of the low-cost concerns, and the consumers were left holding the bag. Instead of keeping competition and small business alive, of lowering costs and increasing output, successful cartels maintained the profit of a few large concerns in a nonexpanding market.

This has been an outline showing why, on a strictly business basis, industrial cartels are poison to the national and the world economic system. It remains to be stated that the national or world interest may require a quite different view to maintain a healthy economy of agricultural and mineral products.

FISCAL PROBLEMS OF TRANSITION AND PEACE

POSTWAR FEDERAL EXPENDITURES AND THEIR IMPLICATIONS FOR TAX POLICY

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About a year ago I brought together the results of a study, which had been in progress for many months, aimed at predicting roughly the probable postwar budget of federal expenditures and the feasibility of balancing that budget under assumed economic and political conditions. The study was necessarily very tentative and rested upon assumptions open to serious dispute; and it was not published,[1] in the hope that further analysis and the unfolding of events would clarify the outlook.

At the present date, some of the uncertainties which obstructed the original study have been narrowed, though far from removed, by a year of swiftly made history; and some of the needed assumptions can now be narrowed, although they cannot be lifted from the arena of dispute. Moreover, much further study, chiefly by others more competent than myself, has added a wealth of material and depth of understanding helpful to a somewhat less rough forecast of so intricate a matter as the postwar budget.

I. *The Picture as Drawn in December* 1943

I can perhaps most effectively explain the forecast position I am now about to take by summarizing briefly the bases and results of the earlier study and then indicating the way in which events of the last year have necessitated modifications thereof. From there on, I can discuss what to me is the key question: Can the postwar budget feasibly be balanced?

The earlier study rested upon six basic assumptions, all of which were, even with the facts available in December, 1943, open to dispute. These were that: (1) the war in Europe would end by the second or third quarter of 1944, that in the Pacific by the second quarter of 1945, and the initial stage of demobilization would end by June, 1946; (2) the expected peace organization would provide over the following ten years a "tolerable world stability," and the United States would have an active but not disproportionate share in that organization; (3) the relation of government to industry in the United States would be

[1] An article based largely upon it was, however, published by Professor John W. Welcker in the *Harvard Business Review*, Summer, 1944.

stabilized, and new large shifts from the private to the public sector would not occur; (4) the average price level in the United States in the decade July, 1946, to June, 1956, would be close to that of 1942; (5) the annual net national income in the United States would average between 115 and 125 billion dollars of 1942 dollars during that decade; (6) an earnest and intelligent effort would be made to balance the federal budget during that decade.

The expenditure side of the federal budget was then estimated as follows (all figures in billions of 1942 dollars):

Inescapable items (average annual figures):	
Interest on the public debt	$ 5– 6
Nonmilitary government activities	1– 2
Military outlays	5– 9
Provisions for veterans	2
Aids to agriculture	1
Social security,[2] existing-law basis	1– 2
Total inescapable	$15–22
Discretionary items (aggregates for decade):	
Foreign items:	
Relief and rehabilitation	$1– 2
Peacetime lend-lease	1– 2
Currency stabilization	0
Investment abroad, Treasury account	0– 2
Total foreign	2– 6
Domestic items:	
Debt retirement	$ 0
Public works	10–15
Subsidies to transport	5– 8
Subsidies to other industry	0– 5
Further aid to agriculture	0–10
Relief	5–12
Further aid for veterans	5–10
Further social security	5–15
Total domestic	$30–75
Total discretionary (decade aggregate)	32–81
Same, but with range estimated for list *combined*	40–70

[2] Here, and elsewhere in this paper, this item is figured in terms of net outlay. The old-age and similar reserves are viewed as consolidated with the Treasury.

Same, annual average basis	4– 7
Total, inescapable plus discretionary	$19–29
Average annual budget, as a single figure, neglecting range	$ 24

The analysis then showed that, at the assumed average net national income of 120 billion dollars, such a budget could probably be balanced by a tax system somewhat less harsh than that established in wartime, but far more severe than any we had experienced before the war. Although the study suggested no "tax plan," it presented estimates for an illustrative "somewhat less harsh than in wartime" system, as follows (figures in billions of dollars):

Direct taxes on individuals	$8–10
Direct taxes on corporations	8– 7
Excises	4– 3
Subtotal	20
Employment taxes	2.5
Customs	.5
Miscellaneous receipts	1.
Total receipts	$24

The foregoing estimate of receipts represents a tax system which, although it was emphatically not recommended as a "plan," was regarded as economically and politically feasible. The individual tax called for "family allowances somewhat more generous, a surtax schedule somewhat less heavy, and a normal-tax [present 'normal' plus first-bracket surtax] rate somewhat lower, than those of 1942," with perhaps the exemption of dividends-received from the normal tax. No significant change in treatment of capital gains and losses, from prewar revenue acts, was visualized. The estate and gift taxes were regarded as yielding about 500 million dollars under present provisions; but, in view of political pressures to increase these levies, were estimated at 500 to 1,000 millions. The corporate tax called for general simplification by eliminating all present features except a single flat-rate tax on income, at a rate of 45 to 50 per cent. Alternatives as to the taxing of dividends were entered in the range of estimated revenue. For the excises, a list of excised commodities somewhat less extensive than in wartime but still very long, and rates moderately below those of wartime, were visualized. The employment taxes were estimated on the assumption that Congress would allow the statutory increases in rates

to go into effect. Viewed as a whole such a tax system represents a very moderate relaxation of wartime burdens "all along the line," but it contains few if any of the attractive features which have found their place in various tax plans which, in my judgment, unduly minimize the political obstacles to certain reforms which *may* be highly desirable on general economic grounds and *are* undoubtedly greatly desired by particular groups of citizens.

II. *Revised Assumptions*

Turning now to the prospect as viewed at the present date, I discuss first the changes which the events of 1944 have wrought in the six basic assumptions. The outstanding events are: (a) the prolongation and intensification of the war in Europe, (b) the quickening pace of the Pacific war attended by a grim public realization that the war in that theater *may* be ended by a bitter and protracted struggle instead of a sudden collapse of enemy power, (c) public recognition of the conflicts of postwar purpose among the allies engaged against Germany, and (d) renewal and extension of the power within our own government of those forces which call themselves "liberal."

Obviously, my first assumption—on the length of the war—was in error and must be revised. I now assume that the war in Europe will end in the second or third quarter of 1945, that in the Pacific will probably end by the second quarter of 1946 but may extend to the end of 1946, and the first stage of United States demobilization and readjustment to a peacetime basis will run to the second quarter of 1947. Among the consequences of this change in time schedule is the shifting of my "first postwar decade," to which the budget forecast applies, to the period July, 1947, to June, 1957. It also means that we shall enter that decade with a higher public debt, and with the prospect of higher outlays for disabled and other veterans, and with a more serious disruption and deterioration of our economy.

The second assumption—as to the postwar organization of peace—must also be altered, largely because of the altered international accord or of the altered public attitude toward it. At this stage, I merely shift my emphasis more toward hope and less toward faith as I repeat the wording of my second assumption. This probably implies danger that United States postwar defense expenditures and perhaps other military outlays may run higher than forecast on the earlier date.

The third assumption—concerning government and industry—no longer seems valid, at least for the early years of the decade. Further large shifts from the private to the public sector are definitely more probable than they were before November, 1944. This implies increased budget outlays on investment account, and probably some contraction

in the private-income base from which revenue might have been secured.

Assumptions four and five—on the price level and the national income—remain, in my opinion, as uncertain and as untrustworthy as they undoubtedly were a year ago. I recognize, now, somewhat different factors contributing to the uncertainty, or somewhat different possible contributions by the factors, than a year ago. But I can see no better basis now than then for appraising these factors, and the two assumptions are allowed to stand now as they stood then; both are mere assumptions. They are not forecasts supported by an analysis, and such analysis as I have attempted claims only to show, for each of these two assumptions, that realization is not so highly improbable as to render the assumption meaningless in a practical examination of the budget.

Assumption six—concerning intent to balance the budget—must be tempered, at least for the early years of the decade. Control of the government is now in the hands of, or is threatened by, forces which, in my deliberate opinion, are incapable of a sincere intent to balance the budget. Moreover, even if intent were conceded, the prolongation of the war and other recent developments have almost certainly increased the economic obstacles to reaching a balance in the early part of the postwar decade. Considering both the political and economic obstacles, I do not now expect a budget balance to be realized any time in the first few years of the decade, and shall be happily surprised if a general balance over the decade as a whole can be realized even by heroic measures in the later years of the decade. I now assume that, during the first postwar decade, such deficits will occur that, for the decade as a whole, the *average* public debt will be 15 to 25 billion dollars higher than it is at the beginning of the decade.

III. *Revision of Estimated Expenditures*

In the light of these altered assumptions and their more obvious implications, we can now recast the expenditures side of the budget. The aim is to produce a set of annual *average* figures for the ten fiscal years July, 1947, to June, 1957. Changes are relatively few and simple for the inescapable items—those largely inevitable regardless of the discretionary attitude of the government.

For interest on the public debt, we must take account of the expected higher average level of debt during the decade. I accept the 292 billion dollar figure, of the Budget Message of January, 1945, as a tolerably dependable estimate of the debt on June 30, 1946. The following fiscal year, on the time schedule now assumed, is the initial period of demobilization and readjustment to peacetime conditions, although the

Pacific war may carry over into the first half of that year. Allowing for a substantial reduction in expenditures on war account, for some expansion in other expenditures, and for a reduction in revenues as corporate incomes contract and individual incomes and consumption decline, I think we must anticipate a deficit in fiscal year 1947 only moderately smaller than that now estimated at about 40 billion dollars for fiscal year 1946. In view of the uncertainties, I put the range for the 1947 deficit at 20 to 35 billion dollars; and this gives, as my best present estimate of the public debt at the beginning of the decade, 320 billions. With my present assumption six, this means an average public debt during the decade of 340 billion dollars.

The average rate of interest on the debt will depend chiefly on: (a) the "natural" level, or system of levels, in the money and capital markets, insofar as natural economic forces have any free play; (b) the disposition of the Treasury to sacrifice a wise maturity schedule to its desire for low rates; (3) the interest-rate policy of all those agencies of government which are capable of affecting interest rates arbitrarily; (4) the strength of any possible political movement to reduce to or near a token basis the interest paid on federal obligations held by banks. All of these factors are uncertain, some of them highly so; and I use the range 2 per cent to 2¼ per cent, as the average rate on the debt during the decade. Allowing a moderate range of variation from my 340 billion dollars estimate for the average public debt, this implies a range for the interest charge in the budget of 6 to 8 billions.

For the military outlays, my altered assumption about postwar world stability ought to imply raising my estimate of a year ago; but, as most critics of the earlier study vigorously contended that the military figure was too high, I use the altered assumption merely as confirming the figure I then presented. This is the range 5 to 9 billion dollars.

The longer war almost certainly means higher provision for veterans, especially those disabled and the dependents of those killed. I therefore now raise that figure by stating it in the range 2 to 3 billion dollars.

I see no reason to change the earlier estimates for nonmilitary government activities, aids to agriculture, or social security (existing-law basis). The inescapable section of the budget then becomes (billions of dollars):

Interest on the public debt	\$ 6– 8
Nonmilitary government activities	1– 2
Military outlays	5– 9
Provision for veterans	2– 3
Aids to agriculture	1
Social security	1– 2
Total	\$16–25

In considering the discretionary elements in the expenditure budget, we must take account of an overshadowing conflict of doctrine: the conflict between the view that "liberal" expenditures, even if financed by deficits, and especially if those expenditures add directly or mainly to the income flows of mass consumers, can bring a sustained advance in the level of national income, and the opposing view that balancing the budget is essential in order to encourage risk-takers in their efforts, which are calculated to raise the national income. During the last twelve years, if not longer, the first of these views has been gaining rapidly though perhaps not steadily in the thinking of those responsible for government policy. While the election of 1944 did not give undisputed ascendancy to that view, little doubt rests in my mind that it did greatly extend the political strength of those holding the view.

That this development will tend to expand the discretionary items, particularly on domestic account, above the levels which I forecast a year ago, also seems to me beyond doubt. The effect on the discretionary items in the foreign account will be less direct, and seems likely to appear chiefly in a greater Treasury effort at foreign investment than I forecast a year ago. Such expenditures will be looked upon as creating a demand for exports from the United States, and thus expanding incomes—particularly those of mass consumers—at home; and this attack on the unemployment problem will be welcome in some high quarters because the distribution of purchasing power through direct relief to unemployed has earned a stigma which frightens certain politicians formerly enthusiastically in favor of the relief policy.

Without discussing the items in detail, I now present the revised estimate of discretionary items as follows (billions of dollars; all figures but the final line are on basis of decade aggregate):

Foreign:	
Relief and rehabilitation	$ 1– 2
Peacetime lend-lease	1– 2
Investment abroad	10–25
Totals, foreign	$12–29
Domestic:	
Public works	$15–25
Subsidies to transport	5–12
Subsidies to other industry	0–10
Further aid to agriculture	0–10
Relief	5–12
Further aid for veterans	5–15
Further social security	5–20

Totals, domestic	$35–104
Totals, all discretionary	$47–133
Same, range for the *combined* list	$60–110
Annual average, discretionary	$ 6–11

When we combine this range for the discretionary items with the 16 to 25 billion dollars range for the inescapable items, the budget total becomes 22 to 36 billions. The mean of these, 29 billion dollars, is my present best estimate of the average annual total expenditures.

IV. *The Revised Outlook for Taxes*

My present assumption six calls for an average debt, during the decade, 20 billion dollars above the debt at the beginning of the decade. I now make the subordinate assumption that the increase in debt occurs, and at a steady rate, during the first five years of the decade; the budget is assumed to be balanced in the last five years. Such an assumed schedule of deficits means that the debt would stand, in the last five years, at a level close to 347 billion dollars; and the net increase in debt for the decade—the net excess of expenditures over receipts—would be 27 billions. On an annual average basis, this is a deficit of 2.7 billion dollars.[8]

If we round the foregoing figure to 3 billion dollars, our estimated annual average receipts must be 26 billions. Such receipts do not, manifestly, produce a budget balance over the decade; but they would, on the bases of the estimated expenditures and of assumption six and the subordinate assumption above, imply a budget balance during the last five years of the decade. This inevitably means either that expenditures during those five years run lower, or that receipts run higher, than their respective decade averages. I should regard it likely that both of these alternatives might make some contribution to the balance in the last half of the decade.

How can 26 billion dollars be raised, in the average year of the postwar decade? That a national income of 120 billion dollars can appear and survive under such an aggregate tax burden, in peacetime, seems to me entirely possible if the burden is wisely distributed among citizens and their enterprises. That this conclusion is open to differences of opinion, I am fully aware; but I make no effort herein to develop the argument in support of the conclusion. In other words, I leave open the question: Can we realize and sustain a national income of 120 billion dollars under a federal tax burden of 26 billions, however wisely that burden is distributed?

[8] Some other time-schedule of deficits than that used for illustration could yield a substantially different average annual deficit, and still have average public debt $340 billion.

As a matter of fact, this question leads us to the following decisively important point about tax policy. The overshadowing conflict of doctrine on tax policy is between the view that taxes should bear lightly upon the incomes and consumption outlays of mass consumers, in order to avoid restricting their purchasing power and thus stimulate national income from the demand side, and the view that taxes should bear lightly upon the risk-takers of the community, in order to encourage their activities and thus stimulate national income from the production side. This conflict is, of course, not unrelated to the conflict noted above between liberal public spending policy and budget-balancing policy. I do not here comment on the first of these views as to tax policy in strictly political terms—in terms of the probable appeal of such a policy to the more numerous groups of voters—or in terms of the widely-held doctrine that taxation should be used consciously to redistribute income (and wealth). I merely note that the view, whatever may be the motives of some of its advocates, is held by numerous individuals who sincerely believe such a policy to be in the public interest. And I note further that this view has been gaining ground, though perhaps not steadily, over the last twelve years, and that the election of 1944 undoubtedly strengthened the strategic position of its advocates.

The contrary view is also held by some who have selfish, and perhaps short-time, interest as their motives; but it is likewise held by many citizens—of whom I count myself one—who sincerely believe that the public interest requires encouragement of the risk-taking function by a substantial reduction of the tax burdens which now obstruct it. My remaining comments are written largely from the point of view of such a citizen, and I shall in fact be trying to answer the question: What chance exists that the taxes which obstruct risk-taking can be reduced? In attempting to answer this question, we must not forget that most, if not all, of the citizens who take this position on tax policy for other than selfish reasons also hold emphatically to the policy of budget balancing. They would think twice before insisting on a reduction of the tax burdens of risk-taking if that reduction could come only through budget deficits; for they believe a major obstacle to risk-taking enterprise persists as long as the budget is not balanced.

What are the reforms which would reduce the tax burden on risk-taking enterprise? They are chiefly: (1) removal of the corporation excess-profits tax, (2) reduction in the rate of the corporation income tax and liberalization of certain other features of that tax (such as loss-carry-forward, consolidated returns), (3) removal or partial removal of the double taxation of dividends, (4) reduction in the higher surtax rates of the individual tax, (5) liberalization of the taxation of

capital gains and losses. No attention is here given to possible reforms which might aim to give tax relief more specifically to the new risk capital incident to forming new enterprises or expanding old, as distinguished from the general bulk of risk capital both new and old.

On the first of these, the prospects for favorable action seem to be very high: in few politically significant quarters does any strong disposition appear to retain this tax in peacetime. It will probably be greatly reduced promptly after hostilities end, and completely removed soon afterwards. We may note, also, that prospect is high that the annoying combination—capital-stock tax and declared-value excess-profits tax—will be removed, but probably at the price of shifting the same burden to the corporate income tax. On the fifth point, I make no comment herein, because I prefer to await the findings of an extensive study of capital-gains-and-losses taxation now being conducted by able associates.

As for the other three desired changes, I remark first that no unanimity appears among the defenders of risk-taking as to which of the three they would prefer, assuming they could get only one. I remark next that the one they are most likely to get, in view of the comparative absence of political hostility to it, is the removal or at least partial removal of the double taxation of dividends; and my own opinion is that this has less adverse effect upon risk-taking than do the high surtaxes or possibly the high taxes on corporate net income.

Bearing in mind that the advocates of these reforms also desire a budget balance, and remembering that budget receipts must average 26 billion dollars annually in the decade if we are to enjoy a budget balance even in the last half of the decade, let us see what the revenue possibilities are. First I consider the minor items in the receipts side of the budget.

Customs are unlikely to yield more than one-half billion. Estate and gift taxes, now yielding about one-half billion, might be made to yield one billion by certain drastic changes in rates and other provisions. Social-security (pay roll) taxes, if increases in rates heretofore contemplated go into effect, might yield 2.5 to 3 billion dollars. Miscellaneous receipts, swollen by liquidation of government war property, might average 1 to 2 billion dollars. From all these sources combined, 4.5 to 6.5 billions. Taking the mean of 5.5 billion dollars, this leaves 20.5 billions to be obtained from the three major sources: individual income tax, excises, corporate income tax.

With national income at 120 billion dollars, even a surtax schedule as steep as that of the Act of 1941 would yield only slightly more than 3.5 billions; and, if the 1942 rates were kept, 3.8 billions.[4]

[4] This regards as "surtax" only the tax, in each bracket, *above* the lowest bracket rate.

With family allowances as harsh as those of the Act of 1941, and a "normal" rate of 18 per cent, the "normal" tax would yield about 5 billion dollars. With family allowances reduced to those of the Act of 1942, and a normal rate of 22 per cent, the yield would rise to 7.5 billion dollars.

In view of the increased political strength of the advocates of lighter taxes on mass consumers, I think we can regard as a practical certainty some relaxation of the tax burden on the lower income groups as soon as any tax reduction is undertaken after the war. Whether that relaxation will take place through easing the family allowances or reducing the normal rate or both, I do not forecast; but I am very confident that it will occur. I regard it likely that revenue from the normal tax will not exceed 6.5 billion dollars and may easily fall to 4.0 billions. Without any significant softening of higher surtax rates, we may therefore estimate revenue from the individual tax in the range 7.5 to 10 billion dollars.

Despite the recommendation in various tax plans that excises be drastically reduced, especially by limiting very narrowly the list of excised commodities, I am estimating this element of revenue as 2.5 to 4 billion dollars. As these taxes fall with particular weight upon lower income groups, I am linking the lower excise-revenue figure with the higher individual-income-tax figure, and vice versa, on the ground that if spokesmen of these groups are obliged to yield on one count they will resist more strongly on the other.

For these two sources, then, we have 11.5 to 12.5 billion dollars of revenue, leaving a range of 9 to 8 billions for the tax on corporation income (the needed total being 20.5 billion dollars). If the double taxation of dividends is reduced by the simple device freeing dividends from the normal tax, about 1 billion dollars additional revenue must be obtained, and it is more likely to be sought from corporations than from the two other major sources.

The prospect does not seem very bright for easing the tax burden on risk-taking. Even at wartime rates, the surtaxes will yield only about 3.5 billion dollars, and any substantial reduction in rates would cut this yield so sharply that the lower income groups would protest, through their spokesmen, that burdens were being unfairly lifted from the rich. Even a partial removal of the double tax on dividends would cost about 1 billion dollars in revenue, which would need be made up elsewhere. And the powerful insistence of the lower income groups on some participation—through more liberal family allowances, a lower normal rate, or smaller excise burdens—in any postwar tax reduction, would leave

That lowest rate is lumped, in my analysis, with the present normal rate, and called "normal."

the burden falling on corporate income still heavy enough to necessitate a rate not far below 50 per cent.

The time has come—indeed, it is already dangerously late—to call upon all citizens, professional as well as lay, to cease living in a pleasant dream and face instead the cold realism of our government's postwar financial task. As far as we can see into the future, our government must make huge expenditures the bulk of which will be a legacy from this war or an insurance against our defeat in a later war. Some of these expenditures are truly unavoidable, and have been forced upon us by world conditions largely beyond our control; but some could have been avoided, at least in part, by a better management of our own affairs. Whatever the cause, however, these burdens must be met. In addition, at least in the early years of the peacetime future, we must observe that a large fraction, perhaps a majority, of a gullible public believes that by some magic of federal finance the age-old objective of people to enjoy plenty without toil—or to have more enjoyments with less toil—can be realized. This public attitude will for years play upon the federal budget, loading it with expenditure elements which are expected somehow to create prosperity. Among the administrative and legislative agents of the people, more than plenty will be ready—because of a sincere conviction or through a demagogic contempt for the truth, through a cowardly yielding before popular clamor, or through sheer ignorance—to assist in translating this doctrine of financial magic into positive policy actions. The probable level of budget expenditures, on all these counts, is the first sober fact which we must face realistically.

The second sober fact we should face is the undoubted numerical minority of those citizens who really believe that encouragement of risk capital is vital to the expansion of our national income and to the well-being of all groups of our people. Until that minority is greatly enlarged by the painfully slow education of great numbers in the low-income groups to a real faith in free enterprise and in the efficacy of risk-taking as a means to improving their welfare, we may expect the dominant political strength to resist any important tax concessions to risk-takers. Unless we are to live indefinitely with accumulating budget deficits, the postwar budget will at best permit only very moderate reductions in taxes from wartime levels. In all the early years the bulk of those small reductions will probably go to the mass voters, not to those who now recognize themselves as risk-takers.

POSTWAR EFFECTS TO BE EXPECTED FROM WARTIME LIQUID ACCUMULATIONS[1]

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One of the most spectacular wartime changes in American economic indices is the huge growth—reflecting the growth of the federal debt[2] —in the mass of claims on the government and on credit institutions which individuals and corporations hold. From the middle of 1939 to the middle of 1944, the main items are as follows:

TABLE I. PUBLIC HOLDINGS OF CLAIMS ON GOVERNMENT AND CREDIT INSTITUTIONS, 1939 AND 1944*
(billions)

Type of holding	June 30, 1939	June 30, 1944	Increase	
			Amount	Per cent
Coin and paper money outside banks	$ 6.0	$20.9	$14.9	248%
Adjusted demand deposits	27.4	60.1	32.7	119
Time deposits	26.8	35.6	8.8	33
Life insurance cash values	21.8	32.6	10.8	50
U. S. securities:				
Marketable	11.2	33.2	22.0	197
Redeemable (excluding tax notes)	2.2	35.3	33.1	1505

* For other years and for sources see Appendix Table I, below.

It is easy to make out a dramatic picture of inflation potential by stressing the huge absolute and relative size of these increases in money and money substitutes, without putting them into any specific framework. But this kind of analysis is always dangerous, and becomes doubly so when the analyst is carrying forward presuppositions which are likely to color his selection of figures. Many economists, including the present writer, have forecast serious inflation during the war; and the very fact that so little inflation has materialized[3] creates a temptation to behave like a prophet of doom after the world has failed to come

[1] The writer is indebted to T. O. Yntema for searching criticism of earlier drafts, and to Martin Jones and Edith Surrey for collaboration in the rather unrewarding statistical study which underlies much of this paper.

[2] The items listed show a total increase of $122 billion for the five years, compared with $115 billion for the increase in federal direct and guaranteed debt (privately held or in Federal Reserve banks) less the rise of the general fund balance. The divergence reflects changes in commercial bank loans and investments other than governments, gold flows, etc., but is plainly second-magnitude.

[3] The roughly 30% advance of prices since the sharp upswing set in early in 1941 is, of course, far from negligible. But in view of the need for important *relative* price changes, few economists would probably have recommended price policies which would have held the rise much below 15%. It is only the smaller rise in prices *which initially were relatively too high* that can be fairly tagged as inflationary.

to an end on schedule, and simply set a later date for the catastrophe. If we are to learn from our experience, we cannot afford to pretend we are never surprised. Consequently it is essential not only to put these monetary figures in perspective by relating them to other economic data, but to make sure that the analysis makes room for the factors which explain the surprises of the war period.

Relations to Production and Income. Besides the astronomy of money, there is also an astronomy of national income and national product. Income payments and gross national product have risen by a fantastic number of billions, and are both currently about 2¼ times their 1939 level; while despite tax increases disposable income is just about double 1939. "Full employment" income and product after the war promise to be double 1939 if prices hold about at 1944 levels. To a first approximation, the public would be about as liquid as in 1939 if all the figures in the first column of Table I were doubled.

By this rather crude standard, the increases down to the middle of 1944 were already more than enough to satisfy postwar liquidity requirements,[4] and further increases on a large scale will have taken place by war's end. But not much weight can be rested on this first-approximation conclusion until we have considered how solid a basis the comparison of cash assets with product gives, and what postwar price situation should be taken as normal.

Actual versus Desired Cash Balances. The first-approximation analysis above implies that if the ratio of cash (defined, say, as the sum of coin and paper money outside banks plus adjusted demand deposits) to some such measure of activity as gross national product is constant, then the "desired cash balances" attributable to the public will be unchanged relative to their actual balances; i.e., that the "desired balances" are in substance determined by activity.

This implication, once brought out into the open, raises a whole series of difficult questions:

1. To what extent is cash held for "speculative" or "precautionary" reasons rather than to meet "transactions requirements," and can any fluctuations or trends in such uses be measured which offer a better basis for forecasting?

2. To what extent do money substitutes reduce "desired cash balances"?

3. To what extent do interest rates affect "desired cash balances" via effects on the cost of liquidity?

[4] This conclusion could be contradicted if it were supposed that time deposits and perhaps also life insurance cash values are entitled to very high weights as money substitutes, but U.S. securities to no perceptible weight. The total face value of currency, adjusted demand deposits, and time deposits shows a rise, 1939 to 1944, of only 94%; the same total plus life insurance cash values a rise of only 82%. But this weighting system would have no logical foundation.

The writer has been unable to locate any convincing quantitative study on these questions for recent years in the United States.[5] Accordingly, the writer has undertaken a fairly extensive econometric analysis. The results seem provisionally to be disappointingly inconclusive. It may be that a more sophisticated pattern of analysis would reveal more definite relations;[6] but the writer is inclined to feel that available data do not contain the answers sought, in any form that statistical analysis can bring out.

"Trends" in Desired Cash Balances. Figures presented by Clark Warburton[7] for the sum of cash plus time deposits at face value, 1919-43, expressed as a ratio to any of several series expressing volume of production or income in current dollars, seem to show a fairly steady uptrend. As critics have pointed out, however,[8] the deviations from trend clearly show the influence of business fluctuations, suggesting the statistical hypothesis of a joint determination of the ratio by business activity and "time."

Studies on this basis are discouraging. If one operates mechanically with the assumption of a linear or logarithmic trend and an influence of business fluctuations (measured, say, by the ratio of real gross national product per capita to capacity as measured by a semilogarithmic straight line drawn through 1929 and 1941) the trend line shows a substantial upward slope and the effect of a rise of activity appears as negative, decreasing the ratio of cash to gross national product. But on closer inspection of the diagrams (based on figures for 1914-44, which the writer is not free to release on account of use of other people's unpublished materials), it appears clear that the "trend" is a fiction. With allowance for activity, 1914-29 shows a horizontal "trend" and 1930-41 an upward "trend" in the ratio of currency and adjusted demand deposits to gross national product; no uniform relationship can be established with these two independent variables for the whole period.

Available indications on systems of payment suggest that the transactions requirements associated with the flow of national product probably have a downward trend relative to national product. Staggering of paydays is one fairly powerful influence in this direction; the

[5] The studies of J. W. Angell (*Behavior of Money,* New York, 1936, pp. 129-155) and Tinbergen (*Business Cycles in the United States of America, 1919-1932,* Geneva, 1939, pp. 82-101) both use no data more recent than 1932; while the recent paper of Clark Warburton (*American Economic Review,* June, 1944, pp. 303-327) is chiefly concerned with the trend in the relation of money stocks to transactions.

[6] For the benefit of readers who may care to try their hands, the writer presents a compilation of midyear estimates of holdings of cash and money substitutes in Appendix Table I

[7] *American Economic Review,* June, 1944, pp. 304-310, and unpublished studies which he has kindly permitted the writer to examine.

[8] J. Mosak and W. Salant in *American Economic Review,* Dec., 1944, p. 835.

upward trend in the proportion of people receiving income at frequent intervals is another; the downward trend in the number of business units relative to national product is another. While there are some factors in the other direction, any upward drift in the ratio of cash to national product must probably be taken to reflect a rise in "precautionary" and "speculative" requirements. The hypothesis that there was a break in the drift of these requirements early in the great depression obviously has a great deal to commend it.

Cash and Money Substitutes. "Liquid assets" held by the public, other than cash, must plainly be assigned a good deal of monetary importance—particularly when speculative and precautionary requirements are in question. The statistics give two indications in support of this position: (1) The ratios of time deposits and of a more inclusive bundle of close money substitutes to gross national product both have broken-backed trends like the cash ratio, but the break is in the opposite direction. (2) Combining cash with either series (taking the money substitutes at arbitrary fractions of face value, to recognize their imperfection as money substitutes)[9] makes possible a much better showing for a continuous trend—particularly for the broader series.

Unfortunately, the details of the comparison of the money-substitute and cash ratios do not confirm the hypothesis that there is any simple and close relationship. The upshot is either that the money substitutes have no significant effect on the demand for cash (which is very hard to believe), or else that their ratios of substitution with cash are variable through time (which on general principles seems decidedly likely).

Interest Rates. According to Keynesian monetary theory, we should expect to find the demand for money strongly affected by interest rates. As a measure of the cost of being liquid, the yield on partially tax-exempt federal bonds should be fairly satisfactory. It is true that this interest series has had a downward drift since 1920, while the cash ratio has had an upward drift on the whole, which is compatible with the Keynesian hypothesis of a negative net relation. But when allowance is made for the effect of business activity and for the "trend" of the cash ratio, the bond yield series has next to no value for a statistical "explanation" of the residuals; in fact, a case could be made out (though not a very strong one) for a *positive* net regression of the cash ratio on the bond yield.

Outlook for Cash Ratios. In the face of these very unsatisfying statistical indications, no very sharp forecast of postwar cash ratios seems to make sense. Prior to the great depression, the ratio of cash (currency outside banks plus adjusted demand deposits) to gross national product

[9] The weights used, which for obvious reasons must be regarded as very crude, are given in Appendix Table I.

was between 0.27 and 0.31 in all the years for which reasonably good guesses can be made. The likelihood that it might fall into this range from its wartime level of around 0.4 is fairly strong; in view of the high level of money substitutes and the likelihood of low interest rates,[10] a still lower figure (say 0.25) may be possible. On the other hand, the high ratios of the thirties (the rise of the cash ratio in 1929-32 being followed by some further rise from 1933 onward instead of by a fall) indicate that if comparable conditions of business psychology prevail, and if the monetary importance of money substitutes proves to be low, we cannot exclude ratios of cash to gross national product as high as 0.40.

If we take gross national product at full employment to be about 175 billion dollars (present prices) for a transition year and about 200 billions for 1950, a ratio of 0.40 gives cash requirements of about 70 and about 80 billions, while a ratio of 0.25 gives requirements of about 45 and about 50 billions. The stock of cash already on hand by June, 1944, was just about equal to the highest of these figures; by the end of the war it will surely be more than double the lowest. If anything, the first-approximation conclusion resting on a simple comparison of growth rates in cash and in national product is strengthened by the examination of the record just summarized.

Money Substitutes in the Transition. A further strengthening of the prognosis of inflationary pressure arises from the transition period prospects for the money substitutes. In the record, the ratio of close money substitutes (time deposits, life insurance cash values, private holdings of government securities) to gross national product shows more cyclical instability than the cash ratio, because of the lesser vulnerability of these money substitutes to deflation. But with a prosperity level of gross national product at present price levels, after the war, the supply of money substitutes in sight would yield a ratio as high as 1932.

The uncertainty as to the monetary importance of money substitutes to which allusion was made above is in good part a hedged uncertainty for the postwar period. If the ratio of substitution of money substitutes for money is low, those individuals and firms who find themselves illiquid during the transition will be peculiarly apt to cash part of their holding of government securities. If the ratio of substitution is high, the scale of such cashings will be lower. In either case, a substantial reinforcement of the monetary pressure toward inflation can reasonably be expected from the side of money substitutes.

Liquid Accumulations and Savings Prospects. Another way of going

[10] Low interest rates combined with measures to reduce the danger of a fall in federal bond prices (a combination of policies which seems most likely to be adopted) should increase the ratio of substitution of money substitutes for cash.

at the problem is to consider prospects for the proportion of disposable income saved. Here again the econometric evidence is far from clear. There is a good deal of evidence from size-distributions of income and expenditure and from interwar time series which suggests that a higher proportion of income is saved at higher national income levels; a regression for the interwar period suggests a rise of about 2 per cent of disposable income per $100 per capita of disposable income in 1944 prices. But projecting this relation backwards into the period covered by the long-range studies of Simon Kuznets[11] would give much lower savings than actually occurred, suggesting (as Dr. Kuznets has put it in conversation) a long-run "secular dissipation" of the tendency to save a higher proportion with rising real per capital income. The interwar period, as Arthur Smithies points out,[12] shows some suggestion of an upward trend of consumption relative to income. General economics furnishes a ready explanation in the well-known upward trend of the standard of living: everyone probably still has an ample backlog of "needs" which he cannot afford to bring to the surface of his consciousness unless his income permits.

Projections of interwar relations suggest postwar savings upwards of 12 per cent of disposable income at prosperity levels, and according to some estimators even upwards of 20 per cent. But even before allowance for cumulative effects of the war, it would be prudent to scale these proportions downward to (say) 10-15 per cent to allow for rising living standards. Then comes allowance for wartime events, under three main heads: (1) backlogs of demand; (2) increased paper wealth and possible saturation of specific savings goals; (3) excess liquidity.

Under the first head, it is generally agreed that spending for durable goods and to a considerable extent for vacations and moving expenses will be for many consumers substantially free from current-account budget limitations for two or three years—existing durable stocks being low and vacations long deferred, and cash or money substitutes being on hand. Under the second, it is at least possible that as households again begin to think in terms of budgets they will be willing to budget

[11] The percentage of net national product in current dollars found to be net capital formation shows a horizontal or slightly declining trend 1879-1928 (see National Bureau of Economic Research, Occasional Paper 6, New York, 1942, p. 31). This could scarcely be the case if the proportion of disposable income saved were rising during this period.

It is interesting that Lord Keynes has been at some pains to insist that he never said the *proportion* of saving out of disposable income would rise with income, but merely the *amount* of saving; see his note in *Quarterly Journal of Economics,* 1939, pp. 633-634.

[12] A. Smithies, "Forecasting Postwar Demand: I," *Econometrica,* Jan., 1945, p. 6. He finds in 1929 dollars a 1923-40 relationship giving consumption expenditure per capita as $76.58 + $0.76 (disposable income per caipta) + $1.15 (time—1922). This trend must be construed to reflect the rise in the "standard of living" as distinct from the "level of living" actually achieved. The rise in the standard, in turn, must be construed to be a delayed reflection of the upward trend in income—working, however, through education, advertising, etc., as well as directly through experience of higher income levels.

a little closer to current disposable income than households of corresponding composition and real per capita income before the war; for wartime savings provide a reserve for rainy days, take care of certain goals of college education, retirement, etc., and thus may make it less urgent to get ahead. Under the third, it is also likely that with excess cash on hand and with money substitutes to draw on in case of cash emergencies many households will spend in excess of their budgets; in fact, for at least part of the population, to have cash on hand is to spend, even under war restraints—much more so later on.

It appears that after the last war the proportion of disposable income saved dropped from nearly 20 per cent in 1919 to about 13 per cent in 1920 (despite a sharp rise in *nominal* income implying a distribution of income favorable to saving); and with the onset of depression savings dropped to 6 per cent in 1921. From 1921 through 1940, the highest proportion of disposable income saved was just over 11 per cent (1929). The implication is that the postwar letting-out of belts has a powerful effect on saving. On the other hand, the 1919-20 figures hint that if we avoid a serious postwar slump there may be more continuity with wartime savings ratios.

Wartime Surprises. It remains to apply hindsight to the wartime savings record and consider how much the surprisingly high wartime savings ratios should be interpreted as gauges of the effect of high income levels rather than of peculiar wartime conditions.

A long list of "peculiar wartime conditions" favorable to high savings is readily compiled:

1. The war years (since the beginning of the peculiarly sharp rise of savings, at mid-1941) have been a time of rapidly rising income. This might seem promising as the main line of explanation were it not for the failure of the proportion saved to drop sharply in 1944-45 with the slacking off of income increases.
2. The shortages of consumer goods, under price control and rationing, have handicapped spending; and indications are that on the whole consumers have felt it better to wait for better qualities and prices than to rush onto the market.
3. Conceivably many wageworkers and others with increased incomes have actually lacked the "imagination" (to quote Gunnar Myrdal) to spend them; certainly emulative pressures of many sorts have been turned off by wartime conditions which have made shabbiness relatively fashionable.
4. Pressures to save have been abnormally heavy. The pay roll savings plan has made bond *purchases* substantially compulsory for many workers, and while *holding* bonds is easier to avoid there

are still strong social pressures against redemption. The recent bond drives have doubtless had similar effects.

5. The changing composition of civilian population resulting from the drain of young men into uniform and from migrations has probably favored savings: incomes equal, middle-aged people are probably more thrifty than young—and many young women have been forced into middle-aged living patterns, reinforcing the shift of actual average ages.
6. The war has reduced the normal flows of *negative* savings to pay for education, for retirement, and for prolonged vacations and medical treatments.
7. There may be some exaggeration of the proportion saved in the standard figures. The residual calculation method employed means that failure to include black-market activity is more likely to understate income and consumption than saving. Furthermore, it is not clear that adequate account is taken of the personal spending abroad of our soldiers, sailors, and civilians stationed outside the country.

These are all temporary factors; we may look for a tapering off of some and a reversal of others. The list is imposing enough to suggest the likelihood of a very sharp drop in savings: in fact, a drop in the proportion saved might already have been expected if factors 1 and 3 had a very heavy weight, and its nonappearance is another of the wartime surprises.

The great missing item in the above list is fear. There is strong evidence that a large portion of the population is worried about future employment and business prospects, and is concerned to provide itself against future hard times. The removal of young men—both by placing young women in a position of insecurity and by increasing the relative weight of more cautious older people—has probably accentuated this savings factor, but can scarcely be regarded as its basic cause. The fact that so many people have let go their previous industrial and geographical moorings is bound to mean insecurity till they are again sure where they are. The very fumblings of our wartime policies toward manpower, procurement, and taxation, by breeding insecurity, have probably contributed to inflation control. While some of these sources of fear are clearly temporary, it is far from certain that abnormal savings due to a sense of insecurity will turn themselves off obligingly just as we cease to need the savings.

Policy Inferences. Both as to liquidity and as to savings prospects, this paper finds a wide range of doubt. Probably a more exhaustive analysis could narrow that range. But since in both fields the decisive

consideration seems to be to what degree and how soon people will lose their sense of insecurity, it does not stand to reason that reliable single-valued estimates can be arrived at.

This is far from an unmixed misfortune. When called upon for forecasts, economists are under a standing temptation to bring forth a single-valued "best estimate"; when called upon for counsel, they are under temptation to lay down proposals which would be correct if that best estimate were a certainty. But just as they cannot afford to pretend that the past has contained no surprises, economists cannot afford to pretend the future will contain none. The economist's policy responsibilities in this field (as in many others) are (1) to suggest ways of making policy adaptable, so that a surprise will not leave policy-makers floundering; (2) to suggest ways of determining the key facts from accumulating experience; (3) to suggest rules for letting that experience guide the redirection of policy.

APPENDIX

TABLE I. CASH AND MONEY SUBSTITUTES IN HANDS OF "GENERAL PUBLIC"* IN UNITED STATES, JUNE 30, 1913–44
(billions of current dollars)

Year	"Cash" (1)	Time deposits (2)	Weighted subtotal (3)	Life insurance cash values (4)	U. S. securities redeemable (5)	U. S. securities marketable (6)	Weighted total (7)	Weighted sum of money substitutes (8)
Suggested weight	1.00	.6 to .75	—	.50	.50	.60	—	—
1913	11.0	8.4	16.7	3.2	0.0	*	18.3	7.3
1914	11.6	8.3	17.3	3.4	.0	*	19.0	7.4
1915	11.4	9.3	17.7	3.5	.0	*	19.5	8.1
1916	13.8	10.3	21.0	3.7	.0	.2	22.9	9.1
1917	15.8	11.5	23.8	4.0	.0	.9	26.4	10.6
1918	18.1	11.7	26.3	4.3	.4	7.5	33.1	15.0
1919	21.2	13.4	30.6	4.7	1.0	17.9	44.1	22.9
1920	23.7	15.9	34.8	5.2	.8	17.7	48.4	24.7
1921	20.8	16.6	32.4	5.6	.7	17.8	46.2	25.4
1922	21.4	17.4	33.6	6.0	.7	15.8	46.4	25.0
1923	22.7	19.7	36.5	6.5	.3	14.9	48.9	26.2
1924	23.1	21.3	38.0	7.1	.4	13.9	50.1	27.0
1925	25.0	23.2	41.3	7.9	.4	13.0	53.2	28.2
1926	25.6	24.7	43.0	8.8	.4	12.3	55.0	29.4
1927	25.5	26.5	44.2	9.8	.3	11.3	56.0	30.5
1928	25.9	28.5	46.0	10.9	.1	9.9	57.4	31.5
1929	26.2	28.7	46.3	11.9	.0	9.7	58.1	31.9
1930	25.1	29.0	45.4	13.0	.0	8.5	57.0	31.9
1931	23.5	29.0	43.7	13.6	.0	8.3	55.5	32.0
1932	20.2	24.7	37.2	13.9	.0	9.5	49.8	29.6
1933	19.2	21.6	33.8	14.0	.0	10.5	47.1	27.9
1934	21.4	22.9	37.0	14.7	.0	10.4	50.6	29.2
1935	25.2	23.8	41.5	16.0	.1	10.5	55.8	30.6
1936	29.0	24.9	46.0	17.6	1.3	11.1	62.1	33.1
1937	30.7	25.9	48.4	19.0	1.2	12.0	65.7	35.0
1938	29.7	26.3	47.7	20.4	1.6	11.5	65.6	35.9
1939	33.4	26.8	51.7	21.8	2.2	11.2	70.5	37.1
1940	38.7	27.4	57.5	23.3	3.2	10.4	76.9	38.2
1941	45.5	27.9	64.6	25.1	4.6	10.5	85.8	40.3
1942	52.8	27.3	71.5	27.2	10.5	12.2	97.7	44.9
1943	71.9	30.2	92.6	29.8	21.7	21.0	131.0	59.1
1944	81.0	35.6	105.5	32.6	35.3	33.2	159.3	78.3

NOTES TO TABLE I

GENERAL NOTE: For analysis, it is necessary to compare these series with series representing national product or income. Since it is not possible to separate personal and business balances for most of the period, an inclusive series such as the Department of Commerce's "Gross National Product" is appropriate. The extension to 1919 published by the National Planning Association is probably not grossly in error, though made in advance of the spadework at the Department of Commerce and National Bureau of Economic Research which presently should give us more satisfactory series. Since consumption goods and services make up most of the product and since the various price indexes are correlated, a suitable price deflator can be approximated by an index composed of the BLS cost-of-living with a weight of .7 or .8 and the wholesale index with a weight of .3 or .2. The midyear population estimates of the Bureau of the Census (*Statistical Abstract of the United States*, 1943) can be used to make a compound deflator reducing the figures to 1935–39 dollars per capita.

[a] "General public" means individuals, corporations other than banks and life insurance companies, and state and local governments.

[b] Apparently less than $50 million.

SOURCES:

Column 1: Demand deposits adjusted plus currency outside banks (given separately in the source), from Federal Reserve Board, *Banking and Monetary Statistics* (Washington, 1943), pp. 34–35 and *Federal Reserve Bulletin*. An adjustment to exclude cash assets of life insurance companies might be appropriate, but has been omitted on the ground (certainly open to debate) that life insurance companies hold cash primarily in their capacity as insurers rather than in their capacity as credit institutions.

Column 2: Time deposits of commercial banks, mutual savings banks, and postal savings (given separately in the source) from the same Federal Reserve sources.

Column 3: Cash with a weight of unity plus 0.75 times commercial bank time deposits plus 0.60 times mutual and postal savings deposits. The weights are so low, despite the prompt and certain cashability of these claims, because of indications that holders of time deposits think of them as earmarked for long-term goals or very unusual calamities and in many instances have a tabu on touching them—cf. the apparently successful prewar advertising campaigns of installment credit houses to use their services "and don't touch your savings."

Column 4: Derived from December 31 figures, 1912–41 in *Insurance Year Book of the Spectator Company*: Excess of policy reserves plus dividends left to accumulate over policy and premium loans. Interpolated, 1923–41 and extrapolated 1942–44 by the excess of total admitted assets over policy loans shown in the monthly series of the Association of Life Insurance Presidents (*Survey of Current Business*). Midyear figures prior to 1923 are midpoints between year-end figures. Weight is lower than for mutual deposits on ground of more inconvenience and stronger tabu in way of drawing on cash values for the same persons; though these cash values are probably held higher up the income scale than savings deposits, and such tabus probably weaken as we go up the scale.

Column 5: Sum of marketable U. S. securities held by "insurance companies" and "others" (*Banking and Monetary Statistics*, p. 512, and *Federal Reserve Bulletin*) less life insurance holdings estimated by blowing up figures of Association of Life Insurance Presidents in proportion with average of two adjacent year-end ratios of stocks and bonds for all life insurance companies (Spectator) to those in the Association.

Column 6: *Banking and Monetary Statistics*, pp. 509–510, and *Federal Reserve Bulletin*.

Column 7: Sum of columns (3), (4), (5) and (6), with indicated weights.

Column 8: Column (7), minus Column (1).

DISCUSSION

GERHARD COLM: Professor Crum's estimate of the federal budget total for the annual average of the postwar decade is 22 to 36 billion dollars—a mean of 29 billions. This estimate will come as a shock to those who have relied on the much lower estimates of other students of postwar finance. Ten other estimates of federal postwar budgets range between 14 and 15 billion dollars (H. Lutz[1]) and 22-23 billions (P. Studenski[2]). Crum's estimate of what he calls the "inescapable" expenditures—ranging between 16 and 25 billion dollars—is much closer to the guesses which other estimators have made for total expenditures. It is remarkable that Crum's estimate of the upper range of inescapable expenditures is higher than the upper range of total expenditures set by all other estimators. This is largely due to the fact that he includes higher figures for possible expenditures for interest on the national debt and for postwar military outlays. These estimates reflect his pessimism (or realism?) about the possible duration of the war and the character of the "peace" following the end of the war.

Even more important in accounting for the comparatively high level of expenditures foreseen by Crum is his inclusion of what he calls "discretionary" expenditures. These include foreign capital investments; public works; subsidies and aids to industry, transportation, and agriculture; payments under additional veterans' legislation; additional social security outlays; relief; etc. Unlike Crum, other estimators did not include many of these items at all, partly for methodological reasons and partly because they expect (or wish?) that no such expenditures will be made. I believe that at least some of the other estimators would not question the necessity of taking into account certain of these "discretionary" items in a realistic estimate of postwar federal expenditures. I doubt, however, that many estimators would agree with the amounts, particularly the upper range, given by Professor Crum.

In comparing these various estimates, it is well to remember that Ruml and Sonne, for example, did not intend to present forecasts of federal expenditures in an average postwar year. Their estimates were made not in a discussion of expected postwar responsibilities and activities of the federal government, but in the development of a postwar tax proposal. They used the estimates merely as an aid to choose a target for postwar revenues. The authors of this postwar tax plan started with the assumption that postwar tax systems should yield revenue sufficient to meet expenditures under conditions of full employment. In estimating expenditures they did not consider any "discretionary" expenditures necessary to help achieve full employment or necessary for relief and assistance if full employment is not reached. This approach is based in large measure on the assumption that tax reduction will assure a high level of business activity without affirmative government programs involving sizable

[1] Harley A. Lutz, "A Post-war Tax Program," *Commercial and Financial Chronicle*, Feb. 10, 1944.

[2] Paul Studenski, "Tax Program for Post-war," *Trusts and Estates*, Jan., 1945. Studenski gives a survey of the various estimates of postwar budgets with bibliography, omitting, however, John W. Welcher, "The Federal Budget: A Challenge to Businessmen," *Harvard Business Review*, Summer, 1944.

expenditures. If the national income falls below the assumed level, ordinary expenditures and any extraordinary expenditures occasioned by this situation would presumably not be financed by taxation, according to this view.

I do not intend to discuss here whether this is a valid basis for selecting a revenue target. I only want to point out why these estimates are not comparable with Crum's estimates.

Professor Crum has not raised the question of which discretionary expenditures must be included in a federal postwar budget if the government is to make its contribution to a high level of business activities. His estimate is a prediction, not a recommendation. Indeed, he registers his disapproval of many of the things he predicts. He seems to argue that high government expenditures result in lower private incomes, irrespective of general economic conditions. He indicates his preference for a policy of budget balancing but believes that deficits will still be incurred during the first half of the postwar decade, at an average rate of 3 billion dollars. He concludes that the annual average revenue will be 26 billions—a considerably higher revenue total than the tax targets established by other estimators.

When it comes to the discussion of revenues, it is not quite clear when Crum predicts and when he recommends. He does make five specific tax recommendations. He encounters great difficulties in explaining how it would be possible to obtain 26 billion dollars of revenue with a 125 billion national income if his five recommendations for tax reduction were adopted. Nevertheless, he probably underestimates the difficulties, given his assumptions and recommendations. I wonder whether Crum does not depart here from his realistic approach. In any case, Crum clearly advocates that whatever tax reduction is possible should be used for reducing the burden on risk-bearing capital. He deprecates proposals to strengthen demand by reducing taxes that curtail consumption. Personally, I believe that the policy objectives which Crum characterizes as mutually exclusive in reality can be made effective only if pursued in combination. Investment incentives will not be effective unless at the same time a market for more products is assured.

Crum's budget predictions cover a ten-year period with an average national income and price level assumed for the whole period. There is no relationship between his budget forecasts on the one hand and general economic conditions on the other hand. By this method he avoids hypothetical or alternative estimates. Yet I wonder whether the exploration of alternative consistent patterns of the relationship between government budgets and business operations is not as useful as definite predictions for a period so far ahead.

Crum's paper certainly raises many questions with respect to predictions as well as policy recommendations. Yet I believe it serves a useful purpose by pouring a good dose of realism as to the probable level of federal postwar expenditures into a discussion that has been largely dominated by wishful thinking and hypothetical estimates mistaken for predictions. Crum's paper is, I believe, not the last word on the subject, but it is a valuable contribution to the discussion.

Arthur R. Upgren: It is difficult to discuss Dr. Hart's paper for two

reasons: first, because no dramatic conclusions have been reached; second, because though certain points in his analysis provide a "strengthening of the prognosis of inflationary pressure," at the same time he concludes that just as economists have expressed surprise at known realization at such predictions made earlier, they may find continuation of similar "surprises" in the future.

Hart finds that prior to the great depression the ratio of cash (currency and demand deposits) to gross national product was between 0.27 and 0.31. He also finds that the figure in wartime has been about 0.40. These cash holdings by June, 1944, were at the highest of these figures, and before the war, or rather war finance, is over the figure will probably be 0.50 or higher.

According to Hart this tends to indicate the inflationary pressure mentioned. This discussant, however, is prepared to accept future surprises in the form of this cash-holdings ratio coming to rest above even the high wartime ratio. This is for the reason that he does not see either stability or relief from crises in the period ahead which could be abiding enough to yield the lower savings that for the longer run Kuznets, according to Hart, in conversation has termed "secular dissipation." This is the tendency towards more than the proportionate increase in the proportion of a rising income that is saved.

PROBLEMS OF REGIONALISM IN THE UNITED STATES

REGIONALISM: A TOOL OF ECONOMIC ANALYSIS

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The writings of Frederick J. Turner have made all American social scientists aware of the existence of political and historical regions in the United States and of the way in which national legislation reflects the divergent interests of the regions. More recently, Howard W. Odum[1] has given us new and valuable indices of regionalism. The economist cannot afford to disregard the existence of regions and of the sentiments that go to make up regionalism. Otherwise his conclusions regarding the effects of public or of group interventions may prove faulty.

In the space at my disposal I can do no more than illustrate this contention by an examination of the effects of certain New Deal measures on the eleven states of the Southeast, which Odum regarded as the most distinctive of the American regions.

For the purposes of economic analysis it should be kept in mind that the Southeast is a region with a very high fertility rate, which is at present long on labor, particularly unskilled labor, and short on capital and technical know-how. Its natural resource base is diversified but in many respects mediocre. Particularly is this true of its soil, which is, moreover, under present farm practices, a wasting asset. As a consequence, the level of living in the Southeast is lower than in other parts of the country and must remain lower until the proportionality of factors in the region can be changed in such fashion as to increase the effectiveness of the labor factor.

This change in proportionality can come about through a massive outmovement of men from the South or a massive inmovement of artificial capital or through a combination of the two. Both will be needed but primary reliance should be placed on capital movements. My whole thesis and my criticisms of policy stand or fall on the validity of this last assumption; namely, that capital should be encouraged to move into areas of surplus labor rather than that men should be encouraged to move to existing industrial centers.

This is, after all, the American thesis as far as foreign countries are concerned. We do not propose to solve the poverty of India, by encouraging Indians to come in vast numbers to the United States. At the same time, we have declared our intention of co-operating with the other United Nations in raising levels of living in these areas. If this

[1] *Southern Regions of the United States* (Chapel Hill, N.C., 1936).

declaration is to be more than a pious hypocrisy, it means that we shall have not merely to permit but actually to encourage the investment of American capital and American know-how in these backward areas. It also means that we shall have to be prepared to evacuate certain segments of our economy in order that producers in these areas may develop the exports necessary to service and repay American loans. Unless we do this our restrictive immigration policy will constitute a legitimate cause for complaint.

Most American economists, I believe, would agree that we have much to gain by promoting the industrial development of so-called "backward countries"—provided we can keep our own economy flexible and can shift our labor and capital into the more advanced industrial lines of production for which there will be an expanding foreign and domestic market. In similar fashion the industrialized parts of the United States will gain from the diversification of the economy of the Southeast. Diversification provides the best—and in my judgment the only—prospect of closing the persistent gap between southern and non-southern levels of living.

Were the New Deal measures of the thirties calculated to close the gap?

There can be no question about the good intentions of the New Deal toward "the nation's No. 1 Economic Problem." I have considerable sympathy with many of the New Deal objectives and many of the New Deal accomplishments of the thirties. With slight modifications—sometimes with nothing more than a modification of administrative rulings—much of the legislation will prove very useful in the postwar period in promoting a healthy and responsible private enterprise system. That it was not more effective during the thirties was due, in my opinion, to the failure to fit national legislation to the needs of the different regions[2]

Recent interventions in the field of labor must suffice to illustrate my thesis. My criticism will be that they were all biased in favor of making men move to existing centers of employment rather than of assisting capital to move to areas of surplus labor. This was not the avowed and probably not even the conscious purpose of the sponsors of these measures. The avowed purpose was to force up wages in low wage areas in order that interindustry competition might depend upon managerial efficiency and not upon the presence of low paid workers. High wages in turn were supposed to stimulate consumption and hence production. The industry codes under NRA set minima which pretty

[2] For a fuller statement regarding the economic basis of regionalism and for other illustrations, the reader is referred to my ***Planning for the South: An Inquiry into the Economics of Regionalism*** (Vanderbilt University Press, 1943).

regularly narrowed differentials to the advantage of the large high wage paying branches of the industry, which were generally located in the old established industrial parts of the country. When this law was declared unconstitutional, the Administration introduced and the Congress passed without debate and without a record vote the Walsh-Healey Act, in order to prevent government purchases from depressing wage rates. On purchases exceeding $10,000, the government was enjoined from giving the contract to the lowest bidder unless he paid a fair minimum wage and otherwise conformed in the matter of hours, working conditions, minimum age of workers, etc. The wage provision read as follows:

> Not less than the minimum wages as determined by the Secretary of Labor to be the prevailing minimum wages for persons employed on similar work or in the particular or similar industries or groups of industries currently operating in the locality in which the materials, supplies, articles or equipment are to be manufactured or finished under said contract.

The law left full discretion with the Secretary of Labor to define the term "prevailing minimum wage." An Administrator of Public Contracts and a Public Contracts Board were set up to make the findings and recommend the minimum wage industry by industry on the basis of public hearings and wage surveys. The Department of Labor interprets the above clause as providing four possible standards based on (1) similar work, regardless of industry, (2) similar work in the particular industry, (3) similar work in similar industries, and (4) similar work in groups of industries currently operating in the locality. To a layman, the restrictive clause "currently operating in the locality" appears to apply to each of these standards and to make of the law a device for enforcing uniformity within a fairly restricted local area. In fact, however, the Department has held that the locality restriction applies only in the rare case of a group of industries located in one place. There has been a definite bias in favor of making the national market the locality wherever possible.

One member of the Board has given the following interpretation of the force of the locality restriction:[3]

> "The prevailing minimum wages for persons employed on similar work" is an alternative which stands on its own feet, and even though the term "similar work" is not followed by a comma in the text, the word "or" following the term nevertheless acts as a complete disjunctive; and, because of change in the verbal sequence from a substantive verb ("similar work") to pure substantives ("industries") after the last pure substantive ("groups of industries") cannot strike back to modify "similar work." The present participle ("operating"), on the other hand, readily reaches through "groups of industries" to "similar industries" and to the particular industry because there is no barrier to halt it. Its influence cannot pass beyond this point, however, because the change in the grammatical structure obstructs it.

[3] O. R. Strackbein, ***The Prevailing Minimum Wage Standard: A Study of the Wage Standard Established by the United States Government for the Purchase of its Supplies*** (Washington: Graphic Arts Press, 1939), p. 65.

Up to July, 1944, the Board had made fifty-six industry wage decisions and had recognized more than one locality in only eleven industries. In the cement industry eight different rates were recognized; in the steel industry, four; in dimension granite, paper, and pulp industries, three; in seven industries only two localities were recognized.[4]

The only way in which the prevailing wage in limited local areas could have been applied would have been to confine the wage findings to entrance rates for common labor. The Department rejected this simple interpretation as tending "to place a stamp of approval on the *status quo*. Application of the law would produce no change anywhere: and this would be absurd."[5] Accordingly the Board adopted the complicated device of gathering wage frequency distributions plant by plant and then fixing upon some rate lying in the lower part of the wage structure, which is regarded as "predominant and having superior force and influence in relation to the lower and higher wages which surround it." No regard is given to the size of plants or the size of the localities in which plants are located. In almost every case the minimum wage finally fixed upon was appreciably higher than the minimum rates paid by the majority of plants and quite frequently higher than those fixed under the Fair Labor Standard Act, despite the fact that at the time these latter rates were supposed to represent the maximum that could be required without causing substantial unemployment. Thus, for example, in the case of seamless hosiery the Fair Labor Standard rate of 32½ cents brought about an increase in wages for 49 per cent of the workers in the industry. None the less, the Public Contracts Board fixed on a rate of 35 cents. In the case of cotton shirts, although the Fair Labor Standard rate of 32½ cents provoked an increase in wages for 74 per cent of the labor force, the Public Contracts Board set a rate 5 cents higher.

Here, as I see it, is administrative discretion run wild, and used to throw contracts into the hands of the large employers in high wage areas, to the detriment of smaller employers in low wage areas. It tends to make men move to jobs rather than jobs to men. Had the law been interpreted as a common sense reading of the wage clause warrants and had attention been paid to the common labor rate as the word "minimum" implies, the administration would have been much simpler and the effects much more beneficial. It would have tended to eliminate from public bidding only such employers as paid entrance rates below those prevailing in local market areas. With the passage of the Fair Labor Standards Act the *raison d'être* for this Act seems to me to have

[4] Mimeograph release issued by Wage and Hour and Public Contracts Division of the Department of Labor, revised to July, 1944.
[5] Strackbein, p. 33.

disappeared. I am happy to note that this is also the view of Professor Sumner Slichter.[6]

The Fair Labor Standards Act provides another example of a federal control which operates to freeze the existing industrial pattern. After a transitional period ending in October, 1944, the law establishes a mandatory *nation-wide minimum* of 40 cents an hour for all employees engaged in interstate commerce or in the production of goods for shipment in interstate commerce, including goods which may eventually move in interstate commerce. Low wages are held to be "unfair methods of competition." In upholding the law, the Court expressly declared itself bound by this statement of fact.

Though the Congressional "findings in fact" seem to me to represent economic nonsense, I am not disposed to quarrel with the Court. Its decision may be politically sound. The Court's new modesty, however, places added responsibilities upon the Congress and the Executive. Our dependence on their wisdom will be far greater than ever before. I wonder whether we do not need an independent Advisory Commission to which new legislation should be referred before enactment in order that, if it be our destiny to take "the road to serfdom"—to quote the title of a recent and much discussed book—we may at least enter upon it with our eyes open and not under the impression that it leads to Utopia.

The statement regarding unfair competition was introduced into the Act to get it past the Supreme Court. As economists, we are concerned with the economic effects of the minimum wage provision of the law. The main economic argument is that a wage below a certain minimum makes it impossible for a worker to keep himself and his family from becoming a charge upon private or public charity. Hence society is justified in making it illegal to hire workers at less than a subsistence wage.[7] It is obvious, however, that the minimum wage will cause some unemployment. If the minimum is reasonable it may be presumed that those thereby thrown out of employment are unable to contribute as much to as the public conscience deems it desirable that they should withdraw from the national dividend. A minimum wage may lead to the clearer identification of this submarginal group and prepare the way for a more intelligent diagnosis of the reasons for their low productivity. Since diagnosis must precede therapy, the principle of the miniumum can be defended not as an end in itself but as a contribution

[6] Sumner H. Slichter, *Economic Factors Affecting Industrial Relations Policy in National Defense*, p. 79. The wage comparisons in the preceding paragraph were taken from this study, p. 76.

[7] Since the laborer might dissipate part of this subsistence wage in a frivolous fashion and then fail back upon public or private charity, society is further justified in withholding a portion of the wage to insure itself against this possibility. The compulsory contributory social insurances fit nicely into the picture at this point.

to the solution of a larger social problem. But unless society is prepared to provide for those who are thus legislated out of the labor market, their fate may be worse than before. A minimum wage is not a humanitarian measure unless it is supplemented by relief and rehabilitation.

If the minimum wage principle is applied to only one segment of the economy and if relief and rehabilitation programs are inadequate, the end result may be to force into the unprotected segment the group legislated out of the protected segment of the economy. If rewards in the unprotected segment are lower than in the protected segment, the disparity between the two will be still further increased, and the national income reduced.

The Fair Labor Standards Act is open to just this charge. The agricultural segment of the economy is explicitly exempted. For millions caught in it, rewards are pitifully inadequate. Public policy should be concerned with the transfer of population from this segment into the processing and servicing segments of the economy. The new national minimum wage will force more people into the agricultural part of the economy or at least increase the difficulty of transferring them out of it. With the return of peace, the law as it stands promises to retard diversification at the expense of the agricultural population, particularly the farm labor and small tenant class in the South.

I see no objection to government fixing uniform minimum wages, provided it is done by fairly small labor market areas. To insist, however, upon the same money wage for identical work in communities of very different sizes, in the face of appreciable differences in living costs, is to insist that workers in low living cost areas shall receive a higher real wage than those in high living cost areas.

At least for a transitional period, the law permits different minima for different industries with a view to taking account of differences in wage paying capacity. Thus the industry committees in recommending minimum rates above 30 cents an hour are instructed to take into consideration: (1) the effect upon employment; (2) the conditions of competitions, such as transportation, living, and production costs; (3) wage agreements for work of like character between employers and employees, when made by representatives of their own choosing; (4) absence of competitive advantage to any group in the industry. Regional differences, however, are expressly excluded, and the minimum for any given industry must be the same throughout the country. In view of the fact that he appoints the public members and hence in effect determines the economic bias of the committees, it is not too much to say that the Administrator could have kept the minimum very close to 30 cents in most industries. Instead, he consistently used his authority to push wages up to the 40 cent level. While the rate fixed by

the committee might cause serious unemployment in a particular small community, there was no redress unless it could also be shown that the rate had caused a substantial curtailment of employment in the industry as a whole. What was a matter of major importance to many small rural areas could be dismissed as incidental to the accomplishment of a noble purpose.

This interpretation of the law seems to me to be economically unsound. I see no reason why efficient plants in a high wage-capacity industry located in a low wage area should be obliged to pay a minimum higher than that of other employers in the area. It is true that by paying the locally prevailing wage such plants will make "excessive" profits but the function of these excessive profits is to induce further expansion there rather than in high cost areas. There is no exploitation of labor as long as the locally prevailing rate of wages is being paid. To eliminate the excessive profits by transferring them to the laborers attached to these plants is to destroy one of the important functions of profits. Their elimination prevents a desirable expansion of production, forces consumers to pay more than would otherwise be necessary, and freezes the industrial location pattern in favor of high cost areas. If these excessive profits do not lead to plant expansion, monopoly may be presumed. It should be attacked directly rather than perpetuated by turning a portion of the monopoly profits over to a favored group of workers.[8]

I turn next to the issue of collective bargaining. As long as labor was more thoroughly organized in the highly industrial areas than in the South, collective bargaining tended to favor the South. It promoted the migration of industries southward, in some cases perhaps to an unwarranted extent. With the enactment of the National Labor Relations Act and the active promotion of organization in the South by unions and by the federal government, the shoe is now on the other foot. Organized labor avowedly seeks to equalize money wages throughout the United States. Its spokesmen before the Wage Board set up under the Walsh-Healey Act have not hesitated to proclaim this as their goal. The United Steel Workers of America demand the complete elimination of any outstanding geographical wage differentials in the steel industry. They argue that it is both unethical and uneconomical to pay different

[8] I do not wish to be understood as denying the possibility that the prevailing wage in some local areas may be below the subsistence level. This means that the populations, with the resources at their disposal, cannot support themselves. The imposition of a minimum wage high enough to eliminate real wage exploitation in New York City or in a rich Iowa farm county will not help such overpopulated areas, as we discovered when we tried to apply the Fair Labor Standards Act to Puerto Rico. It only made a bad situation worse. But a national minimum fits rural Mississippi hardly any better than it fitted Puerto Rico. In both cases more drastic measures than wage manipulations are needed.

wages for similar work anywhere in the United States except insofar as there are appreciable differences in the cost of identical standards of living, and this they deny. They hold that existing differences represent differences in levels of living.

Similarly, railroad labor has supported its successful drive for nation-wide uniformity by arguing that the services performed by its workers are more or less standardized over the nation and that there is no more reason for allowing one road to hire labor at a lower price than another because of its financial or its geographic position than there is for allowing one railroad to buy rails or ties or locomotives for less than another. There are several objections to this argument. In the first place, many small and weak roads do not in fact pay regular prices for standardized products. They are forced to buy cut-rate equipment, usually second hand. By analogy, the limited employment opportunities in some communities are such that employment at substandard wages on a weak carrier is more advantageous to the employee than any alternative employment available to him.[9] In the second place, the existence of uniform prices for supplies and equipment, regardless of distance of haul to point of utilization, indicates the presence of monopoly on the part of suppliers. This monopoly should be attacked rather than used as an argument for giving railroad labor an equivalent monopoly privilege. In the third place, the argument overlooks the fact that the principle of nation-wide uniformity by industries brings about ethically unjustifiable differences in rates of pay for workers living side by side and doing similar work, simply because they happen to be employed in different industries. In the fourth place, such industrial differentials perform no useful social function. On the contrary, they prevent rather than assist the transfer of labor and capital out of low profit into high profit industries. Meantime, they deny to consumers even the possibility of the lower prices which could follow as a result of high profitability.

Finally, it should be pointed out that insistence on the maintenance of particular wages which are higher than present conditions of supply and demand may warrant cannot be defended on the Keynesian grounds that a general fall in wages causes unemployment, unless it can be shown that the fall in above-normal wages brought about by a transfer of workers, will be greater than the rise in substandard wages. This contention is difficult to prove or to disprove. General reasoning supports the view that public policies, which assist abler but poorly paid workers to qualify for and to shift to higher paid jobs or to higher

[9] This point was drawn to my attention by Dean R. D. Calkins, of Columbia University, who served as a member of the emergency board of the National Railway Labor Panel, which handled a labor grievance involving the Columbus and Greenville Railway Co. and four other short lines. The report, generally known as the Mitchell Report, was filed June 24, 1943. The citation is from this Report.

wage areas, will (1) raise rather than lower the general level of wages; (2) reduce income differentials in a socially desirable way; and (3) minimize the transitional unemployment of labor and capital that must always be present in a dynamic free enterprise society.

If the wage theories of organized labor prevail, private capitalism can hardly survive. And if private capitalism goes I shall expect to see the other great freedoms go with it—freedom of speech, of assembly, of religion.[10]

Hayek's pessimism as expressed in his recent book, *The Road to Serfdom*, obviously stems from the same fear. Thus he attributes the enormous growth of rigidities in Great Britain to the fact that the forces of the Left, abandoning their fight against all privileges, and accepting the thesis that competition is destructive, have united with capitalists in the search for privilege and for monopoly. "Though it should be clear," he goes on, "that . . . the higher wages which the monopolist is in a position to pay are just as much the result of exploitation as his own profit, and are just as certain to make poorer not only all the consumers but still more all other wage-earners, not merely those who benefit from it but the public generally nowadays accept the ability to pay higher wages as a legitimate argument in favor of monopoly."[11]

A little further on Hayek remarks: "the recent growth of monopoly is largely the result of a deliberate collaboration of organized capital and organized labor where the privileged groups of labor share in the monopoly profits at the expense of the community and particularly at the expense of the poorest, those employed in the less-well-organized industries and the unemployed."[12]

This is of course my thesis. Hayek is discussing primarily the effects of the wage policies of organized labor upon the transfer of labor and capital from contracting to expanding industries. I am concerned with this issue but also with the geographical aspects of the problem.

If American unions succeed in enforcing nation-wide equalization of money wages in defiance of marked regional differences in the supply of labor and of capital, southern industry will suffer. It cannot now pay money wages equal to those in other parts of the country. The value added by manufacture per wage earner is substantially less than in any other part of the country. In 1929, for example, the "value added" in the Southeast was $2,074 as compared with $3,668 for the country as a whole. Ten years later, the corresponding figures were $1,948 and $3,130.[13] Out of this value added had to come wages, salaries,

[10] A fuller statement of my views regarding the relationship between private enterprise and human freedom can be found in *Planning for the South*, pp. 20-32.

[11] F. A. Hayek, *The Road to Serfdom* (University of Chicago Press, 1944), p. 196.

[12] *Ibid.*, p. 199.

[13] *The Southeast* (National Resources Planning Board, 1942), Table VII, p. 130.

taxes, capital costs, such as interest and amortization, profit and sundry minor costs. Southern industry pays a larger proportion of this value added to its wage earners than does the country as a whole. While wages in southern industry are distressingly low, they are, nevertheless, substantially higher than earnings in practically every other branch of economic activity in the area. To raise them further by fiat will retard diversification and deprive the states and the localities of a tax resource needed to support the public services and the public employees, many of whom are less well paid than workers in industry. Education in particular would suffer.

The adverse regional effects of wage equalization can be illustrated by the situation on the railroads, where nation-wide uniformity substantially prevails. The operating personnel on southern roads actually make more in a year than those operating in official territory because the daily runs are longer. The nonoperating employees get slightly less. In 1938, the average earnings of railroad employees, taking the country as a whole, exceeded those in all other industries by 28 per cent. In the South Atlantic states, the differential was 59 per cent and in the East-Southcentral states it was 64 per cent. In South Carolina, railroad workers' wages were on the average 74 per cent above those of workers in all other industries. In Mississippi they were 87 per cent higher. An engineer on the run from Paducah, Kentucky, to Memphis, Tennessee, works eighteen days and makes more than $500 a month. This is a good deal more than 98 per cent of the university professors in the South make and they have to work more than eighteen days a month.

In southern territory the railroad workers are the aristocrats of the labor market. Their wages could be reduced on the average by one-third and still leave them as well paid as workers of similar skills and responsibilities in the area.

The total pay roll of the Southeastern district in 1938 was 311 million dollars. In the year ending September 30, 1943, it was 542 million dollars. If we assume a postwar pay roll of 450 million dollars we come to this startling conclusion: a saving of 100 to 150 millions annually could be made by the southern roads without asking southern railroad labor to accept a position inferior to that of their fellows. With such a sum at their disposal, the railroads of the South could go a long way in meeting the complaints of southern shippers without asking investors in southern rialroads for any sacrifices in addition to those which they have been taking for many years past. Funds could also be available for modernization and improvement. The annual diversion of 100 to 150 million dollars to improved service and lowered freight rates would do far more to raise the whole level of incomes in the South than it can in the pockets of a selected and privileged few.

But, it may be asked, would any such reduction in wages really lead to a reduction in freight rates and to an improvement in services? Of course, no one can guarantee that the recognition of regional wage differentials in this industry would lead to a reduction in freight rates and an improvement in service in the South, but it can be said with confidence that the enforcement of national uniformity greatly decreases the prospects of the South's getting the quality of services and the structure of rates that it needs. For reasons already indicated, I am confident that these changes would raise real incomes in the South far more than they would lower the incomes of the railroad workers.

I am aware that it would be quite impossible to bring about any radical change in the near future. If, however, the Railroad Mediation Board and public opinion were convinced of the unsoundness of the principle of nation-wide wage uniformity, it might be possible over the years to release southern roads from this uneconomical burden.

Unfortunately, the federal government itself seems to share the thesis of labor. It has long paid identical money wages for most of its field workers throughout the country. A postman in a small town in Mississippi gets the same wage as his counterpart in New York. The same is true for charwomen in the custodial services. Wherever the federal government intervenes it throws its influence in favor of the unsound principle of geographical uniformity, and if there is any criticism of this principle by research men attached to government agencies, I should like to have it called to my attention. The official attitude appears to be that a sound wage structure must never be attained by bringing down excessively high wages—only by bringing up excessively low wages.[14]

My argument up to this point can now be summarized: (1) The emergence of a region from an agrarian status is extremely difficult; (2) diversification is desirable in the long-run interests of such a region and of the nation as a whole; (3) historically, in the case of independent countries, the transition has been made with the aid of protective tariffs; (4) in the United States this device is not available and should not be used if it were; (5) federal policy, insofar as it departs from strict neutrality, should promote not obstruct wholesome regional diversification; (6) many of the policies of the American Government, far from being neutral, have actually been biased against diversification.

If the argument is correct the "sixty-four-dollar question" still re-

[14] This philosophy permeates the White Paper in which the British Government accepts "as one of their primary aims and responsibilities the maintenance of a high and stable level of employment after the war." It is also explains why the British Government cannot accept a return to the gold standard. It looks to me as though the British Government—and indeed any government which accepts the thesis that wage rates can only be flexible upward—had embarked upon a course of secular inflation.

mains to be answered: How can the federal government best assist the Southeast? First of all it should eliminate existing man-made obstacles to diversification. Secondly, it can give positive financial assistance. To me the device of grants-in-aid seems to be the most appropriate method. Unfortunately, they have been typically on a fifty-fifty matching basis. The result has been that the low income states, notably those of the South, have been unable to avail themselves of all the aid proffered to them. Unless the formula is modified, federal grants-in-aid may, under a balanced federal budget, actually turn out to be a device for draining resources from the South. I have ventured elsewhere[15] to set forth a grants-in-aid formula with a frank equalization bias coupled with a cycle variability factor therein designed to induce the states to take up portions of the grants for the execution of postponable items in supported programs at such times as private investment tends to slacken off. Federal grants should be used primarily to support those state and local services affected with a national interest which increase the capacity, without reducing the responsibility, of people to look out for themselves. Health, education, conservation of natural resources would seem to be the three great services which should receive federal aid. The quotas assigned to the several states should be based upon some minimum standard of excellence; the amounts which the states should have to put up to secure their quotas should vary directly with their state per capita incomes. Experts may very properly work out the standards for the services and suggest appropriate equalization formulas. The formulas, however, should, in my opinion, be written into the laws themselves. Administrative discretion should be kept at a minimum. The funds should then be available to the states as a right, in order that they may make them go as far as possible toward the accomplishment of the desired ends. The Congress might well set up minimum standards as regards simple honesty and efficiency in the administration of the services, but the state should not be obliged, for example, to pay more than is needed to recruit efficient personnel.

In this fashion, the federal government could promote the inflow of capital into a region like the South for the development of the institutional services that the region needs for its further development. Wage differentials would provide another force which would attract private capital. At the same time, the higher wage rates prevailing in the present industrialized parts of the country and the very low rates of natural increase in those same areas would continue to attract a large but declining movement of surplus population from the seriously overpopulated parts of the South. The diversification of the southern economy would provide growing markets for southern agricultural

[15] *Planning for the South*, Ch. IX.

products and for southern agricultural workers and thus prepare the ground for the reconstruction of southern agriculture on a sounder and more permanent basis. In the long run, real wages in the highly industrialized parts of the United States will be better defended by a wholesome development of southern industry than by devices which flood northern and midwestern cities with unskilled and poorly educated southern workers.

In conclusion let me again emphasize that I am pleading for the development of the southern economy so that it can take its proper place in the national economy. I am arguing that only through diversification can the regional be integrated into the national economy. It is my contention that the development here sketched would lead to a vast increase in interregional trade, to the advantage of every part of the nation. The South represents a tremendous potential market for the investment of capital and for the expansion of the demand for consumer goods. Decent regard for regional wage differentials seems to me absolutely essential to the realization of a more prosperous South and a more prosperous nation. If the American people accept the thesis of organized labor that it is unethical and uneconomical to ask northern workers to compete with their fellow Americans in the South on the basis of wage differentials, will they be willing to ask American labor to compete in the home market with the laborers of impoverished Europe, not to mention those of India and the Far East? If we apply a fallacious fair wage test to products moving in interstate trade, I find it difficult to believe that we will do otherwise when it comes to international trade.

Governments have a large role to play in the postwar world. If they use their power to make their economic systems rigid on the capital side, through excessive patent and tariff protection and cartel privileges, and on the labor side, through inflexible wage fixing with ever expanding public works as the mechanism for providing employment for the capital and labor legislated into idleness by their policies, the prospects of a better world will be slight indeed. In that direction lies disaster, domestic and international. Due respect for regional differences is essential to a satisfactory solution of all the great problems that lie ahead—the problem of high employment, the problem of abundance, the problem of individual freedom, and, finally, the problem of peace.

REGIONALISM: POLITICAL IMPLEMENT

By Leon Wolcott
Foreign Economic Administration

One of the essential lessons of regionalism is that in regionalism there is and can be no separation of politics and economics. But political scientists and economists exist as separate species in human society and it is natural that they approach the subject of regionalism quite differently. It will not be surprising, though, if regionalism is the place where the two disciplines someday suddenly discover that they have really meant the same thing all along.

Regionalism, to the political scientist, is an implement of public administration. But, before, we get too far into administration, let us see what a region is. It is a sound principle of administration to be thoroughly familiar with the area of responsibility.

To explain what I mean by region I am going to take the liberty of picturing several, all centered in a nearby Virginia farm.

Grass Roots is a farm of some 250 acres, located about 45 miles north of Washington, just 8 miles south of the Potomac River. It lies in a fertile valley between the Blue Ridge Mountains on the west and the Catoctin range on the east. This valley was settled almost two hundred years ago by Quakers who migrated from Pennsylvania. As do most farmers when they move, these farmers applied to this new valley the type of farming to which they had been accustomed and for which they had been trained. They had very little money or other material goods, and only the labor of the family. Accordingly, the first farms were small, at least by our standards. And on these small farms, over a period of years, rather magnificent stone barns and stone houses were built along the lines of the Pennsylvania Dutch architecture. The farmers built the barns because they kept livestock and they kept livestock because they practiced rotation farming. Their system of farming was relatively easy on the soil, and until this day the land is exceptionally fertile. As the farmers prospered, some moved to the village and sold their land to those who remained. Gradually the size of the farms increased, as they continue now to increase. But throughout the valley even today there remain the stone barns and stone houses and the evidence of good husbandry.

The full flowing Beaver Dam creek meanders down through the center bottom land of Grass Roots where it is joined by two branches of the creek which flow through other fields. Grass Roots, then, is in the Beaver Dam watershed which is a distinct natural region. The waters from this watershed flow into Catoctin creek, which drains the entire area between the two mountain ridges. This, too, is a distinct water-

shed region. And the waters from the Catoctin creek flow into the Potomac River, and the Catoctin Valley is a part of the much wider Potomac River drainage region. The farmers of Beaver Dam creek are concerned about all three watershed regions. Occasionally the waters of the Beaver Dam creek flow too fast and wash out the farmers' water gates. Sometimes, the waters flood the bottom lands and deposit valuable silt that enriches the soil. Farmers do not mind that so much, but they do not catch all of the silt on their bottom lands and what they do not catch goes down to Catoctin creek or the Potomac River to be lost to them forever. Sometimes a bridge or two that must be crossed to get to town wash out.

Some of the farmers in the Catoctin region produce milk for the Washington market and some produce it for Baltimore. And so the region is part of two other regions: the Baltimore milkshed and the Washington milkshed. And do not think that is not important, because as a result of the rapid increase in the population of Washington, the farmers in the Washington milkshed enjoy one of the highest prices for their milk in the whole country, but if a farmer wishes to ship to the Washington market, his cows and dairy buildings must comply with standards that are quite different and much more rigid than if he ships to Baltimore where the price is lower.

Sheep, hogs, and beef cattle are produced in Catoctin Valley. Some livestock is marketed at Leesburg, the county seat, and some in Baltimore. Baltimore is by far the larger market and it controls the prices at Leesburg. But the Baltimore price is very nicely adjusted to the price at Chicago, only usually just a little bit lower, and the price at Chicago depends upon the supply and demand of cattle throughout the entire livestock producing area of the nation. So far as livestock prices are concerned, then, the Beaver Dam Creek region and the Catoctin region are parts of the very large national livestock regions.

The livestock story is the same as that for wheat and, to some extent, for corn. But with wheat, perhaps more than with any other commodity locally raised, even the Chicago price is not the most distant price control factor. The price of wheat, excepting national governmental counter measures, is directly affected by the price of wheat at Liverpool and the price of wheat in Canada. So the farmer in Beaver Dam Creek Valley is quite helplessly a part of a grain region that embraces practically all of the world.

There are many other regions of which Beaver Dam Creek Valley is a component. They are all significant and they all bear upon the way the people live, the way they think, the things they enjoy. The little valley, for example, is a part of a great complex of political regions; of the two election districts for which the creek serves as one

boundary, of the county, the state, and the nation; it is part of Region 4 of the Farm Security Administration, the Eastern Region of the Forest Service, a district of the Farm Credit Administration and the Federal Reserve System. And what is true of the Beaver Dam Creek watershed is substantially true for any area of the nation, although the details vary widely. You know the stories of the great rivers: the Mississippi, the Tennessee, the Missouri, the Columbia. You know the stories of the great rural-urban regions centering in our cities. You know the great plains, the arid lands, the mountain areas, the irrigated sections. All are regions, with inner regions, and subregions, with vertical regions, horizontal regions, and overlapping regions. The modern state comprises an extremely complex pattern of political, cultural, social, economic, and natural regions, all interrelated and pressing directly on each other both from the bottom and from the top.

To the political scientist, regionalism is the politics of regions, and there is a politics of regions despite the efforts of many to keep such things out of politics. Regionalism is governmental policy toward natural and human resources translated into regional terms for the collection and analysis of data and for planning and action. Regionalism is organization and action by the peoples of regions for improving the welfare of the region.

As an expression of national policy, regionalism is different in different nations. The Malay Peninsula, for example, under British influence was subject to a colonial-imperialistic regionalism that developed an economy of large-scale rubber production, extremely low wages, and great dependence upon imports as well as upon exports. The Japanese regionalism, also imperialistic, impinges upon the Malay Peninsula quite differently. The Japanese interest in rubber is related to her war effort. The former United States consumption of natural rubber has apparently not been entirely taken up by Japanese military requirements. And the shortage of Japanese shipping as well as the hazards to which it is subject has put a premium upon regional self-sufficiency rather than the more usual and, to the mother country, more profitable import-export trade. Accordingly, the Japanese have been pulling rubber trees to open land for the cultivation of rice, thus reducing the need to export rubber and to import foodstuffs. And in Burma under British regionalism rice was an export commodity and rice bags were imported. The Japanese have reduced the rice acreage in Burma and developed large plantings of fibers to make Burma less dependent upon rice exports and bag imports and, as a result, much more self-sufficient.

A purely materialistic evaluation of different regionalisms leads to startling conclusions. The Japanese policy of self-sufficiency for the

regions of Southern China, Southeast Asia, and Manchuria would seem to produce a more stable economy for those areas than they have heretofore enjoyed. The economy of Malaya, for example, is no longer almost completely dependent upon the price and demand for natural rubber in the United States. But to effect self-sufficiency and other aspects of Japanese regionalism, the weapons of a tyrant have fallen heavily upon the people. In occupied China, self-sufficiency means enough rice for the Japanese armies of occupation. The native Chinese may starve or be murdered for eating too much of the food they raise. In order to establish self-sufficiency in fibers in French Indo-China every householder is required to plant enough cotton to supply his own requirements—or do without. Every rice grower must sell to the Japanese authorities, at controlled prices, an assigned quota. It is unusual for a rice producer to harvest rice in excess of his quota.

The range of the politics of regionalisms is very great. At one extreme regionalism is an implement of democracy for maximizing the immediate and long-time welfare of the nation through development, management, and utilization of the resources of regions in the interest of the people. At the other extreme, regionalism means exploitation of human and natural regional resources for the enhancement of anti-social, totalitarian objectives with only vague, ideological, contingent, future benefits to the people.

Regionalism, then, is a tool of administration that can be used with equal facility by tyrant and democrat. Regionalism is a means, not an end. The political scientist can warn, therefore, that unless the end is clearly defined the results of regionalism may not be pleasant.

In the United States, our principle political objective should always be increased democracy. When the present war is ended, the United Nations will have won the opportunity to develop a really democratic society. Regionalism can be an effectual implement to that end.

Democracy, I believe, is a system of society in which the people hold and exercise the power to control the managers of the forces that affect their welfare. Such a society must be dynamic. One fundamental political aspect of the technological revolution is the shrinkage of the globe; another, perhaps more important, is the inadequacy of ancient political institutions to control the forces of the technological revolution in the interest of all the people. The technological revolution has enabled fewer and fewer individuals arbitrarily to affect the welfare of greater and greater numbers of people. This trend is directly counter to democracy. If this is truly to be a century of the common man, then institutions must catch up with economic and technological developments and provide a workable structure of society whereby the many have the power to control in the interest of the many.

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There can be no control without accountability. The absence of either produces anarchy or tyranny. The powerful have always known this. They have sought consistently either to avoid accountability or to prevent, dilute, or destroy the controls of the people. Corporations, combines, holding companies, trusts, and cartels are modern devices to avoid accountability. The poll tax is a control preventive. The two-party system, the periodic ballot, and modern propaganda are control diluents. All successful dictatorships develop only after controls are destroyed.

Effective control and accountability are dependent upon the dynamics of control techniques. The dynamics of centralized power are great. The implements of control tend to lag and to be inadequate except in brief revolutionary periods.

The effectiveness of control implements decreases as the power to be controlled is removed from those who exercise or should exercise control. The town meeting is effective in controlling town officials but powerless to control freight and passenger rail rates on all exports and imports or to break the monopoly that fixes the prices of many of the things the town people buy. The worker can join a labor union and strike for higher wages or better working conditions, but neither he nor his union can compel Wall Street banks to liberalize credit in order to stimulate industrial production so they may continue to have jobs at all. Farmers can manage their land to conserve the soil, but they cannot control the prices of the things they buy or the prices of the things they sell, both of which are fixed by distant forces and both of which encourage them to mine rather than conserve their soil. Of course the town dweller, the worker, the businessman, and the farmer, if he is not satisfied with the railroad, the banker, or the cotton merchant, can vote for a new governor and state legislator every two or three years, a new congressman every two years, two new senators every six years, and a new president every four years.

But he would gain more, I think, if he would re-examine his relation to those services and distant controls to ascertain their true costs and not be satisfied that everything that is bigger is economically better. The subsistence farmers of the nineteenth century controlled virtually all the economic forces that affected them because they were so little dependent upon outside goods or services. It was not until the farmers specialized in crops for distant markets that freight rates became important. But farmer, worker, and local businessman have abdicated and allowed, indeed furthered, a centralization of power beyond their control. The substantial self-reliance of individual and communities has given way to very great dependence upon distant production,

service, and organization. The centralization of power has contributed to the rapid development of the United States. Great industrial advances have resulted. Nevertheless, we need constantly to reappraise the advantages of centralization against the need for more democratic controls.

Economic centralization and decentralization are relative terms, not absolutes. The function of laundering, for example, may be centralized in a community laundry while the processing of food may be decentralized from large cities to local communities. But always centralization tends to remove power from the controls that belong in the hands of the people. So far as the welfare of the people is concerned, the advantages of centralization should clearly outweigh the disadvantages of ineffective control. Such an evaluation is not simple. Obviously it is more satisfactory for city dwellers to purchase milk from centralized sources than for each family to attempt to manage a milk cow staked out in the city park. But is it any less ridiculous for the farmers of Loudon County, Virginia, to sell livestock on the Baltimore market and to buy Colorado beef from the local grocer?

There are many reasons for the great centralization of power during the past fifty years. Let us examine a few of them.

The development of the steam engine and the use of coal for energy put a premium upon plant location close to the source of energy or inexpensive water transportation.

The efficiencies of bigness both real and apparent also contribute to centralization. Mass production techniques definitely reduce production costs in the factory; but the social cost in terms of unsanitary and unconscionable slums for workers have never been evaluated in the same hardheaded fashion. Large feed mills prove capable of grinding and mixing grains and other feed components at a cost which reduced the value of the farmers time for doing the same job to a few cents per hour. But unless the farmer is otherwise able to spend the time saved either in cultural enjoyment or more productive enterprise the results of centralized feed preparation are a net loss to him.

The nuisance of competition is another motivating factor. Effective competition means that someone else is trying to do what you are doing better and cheaper until he forces you to the wall or you force him to the wall. This is always unpleasant and too easily avoided through consolidation or merger or trade agreement.

Perhaps the most important reason for centralization in this country is the fact that the vast majority of the people have believed in it and supported it as "the American way." Consciously or subconsciously the people have applauded those who have succeeded in pirat-

ing vast controls of vast enterprises. Consciously or subconsciously the people have hoped that they, too, individually would have the opportunity to do the same thing.

Finally, the family as an economic unit and political institutions based upon economic conditions of the eighteenth century have not been able to prevent centralization even where the will to prevent it existed.

Relative to the mass production system of the automobile factory the subsistence farm of a hundred years ago would be extremely inefficient. But that does not necessarily mean that every aspect of our industrial plant and our economic organization needs to be centralized beyond the control of individuals. The development of electrical energy and the vast distribution of that energy has invalidated the advantages of industrial sites near coal or water transportation. The development of dehydration, quick freezing, and home refrigeration has eliminated the advantages of centralized food processing. The co-operative movement has demonstrated that bigness can be subject to direct control by people even though much improvement in co-operative control is desirable.

The development of democratic regionalism will require the fullest support of all levels of government, each in accordance with its authority and resources. The scope of governmental action and authority bearing upon regional development is extensive; the pattern is intricate. The regulation of business practices and transportation, the development of the Tennessee and Columbia River Valleys, the construction of highways, the performance of industrial, agricultural, and medical research, the conservation, recreational, and housing programs, farm credit, and support for co-operatives are but a few examples.

Democracy requires a great deal more than action by government. The people bear the responsibilities of democracy. It is their job to develop and maintain implements of control commensurate with the task of control. As individuals they are inadequate; they can be effective only through organizations in which the span of control is within the limits of their time and capacities, and which serve to divide the functions of their economic life between centralized and decentralized performance in accordance with an optimum relationship between democratic control and economic efficiency.

The division of functions between centralized and decentralized performance subject to democratic controls can be accomplished through a more careful and clarified use of regions based upon an analysis and appraisal of functions. The values of functional performance will vary from region to region as natural resources, climate, area, population, location, and culture vary. Each region by democratic

action and with full knowledge of all relevant facts should be free, provided there be no conflict with the general welfare, to decide which functions it will perform and how to organize to accomplish them.

The smallest region, the smallest watershed, or the smallest community, for example, should organize itself to produce for itself the maximum of its own needs compatible with optimum efficiency. This would mean, for example, that groups of neighboring farmers would organize to purchase and use machinery which separately they could not afford to buy or maintain. It would mean that these same farmers would retain from their total production all the feed and other products they themselves would need throughout the year. Each farmer would be encouraged to manage his farm in accordance with the best utilization of his resources. Where this meant crop specialization arrangements for an exchange of part of his crop for different crops raised by associated farmers would be developed. The associated farmers would strive to gain all the advantages of large-scale farming while retaining a maximum of control over the individual operations. This regional organization would produce a relatively self-subsistent enterprise with a significant surplus of production available for marketing through a larger community or county regional organization in which all the inhabitants—farmers, factory workers, storekeepers, bankers, and professional people—would be affiliated. This organization would seek to perform for all its members services which could not be performed as well by the smaller components. Industrial production would be related to agricultural production so that during harvest periods workers in towns would assist the farmers and during the winter season farmers could devote their idle hours to productive work in the towns. The objective of this regional organization would be to produce the maximum of its needs compatible with optimum efficiency. Such a region would produce a surplus of raw materials or finished products or both to be marketed through a larger regional organization.

The structure of regional co-operative organizations should include larger and larger geographic areas, but none larger than, let us say, the Missouri River valley, the New England States, or the Northern or Southern Great Plains. Beyond such areas regional organizations could be based not upon contiguity but upon commodities such as wheat, wool, petroleum, and copper, and functions such as automotive production, transportation services, and power development.

In each regional organization controls should be rigorously exercised and accountability continuously demanded. The size of the smallest region should include from ten to twenty or thirty families in rural areas. The next level for rural areas, and the basic unit for towns and cities, should include from one hundred to three hundred families, or

ten of the smallest units, and ten to fifteen of these making up the next regional level, and so on to the maximum regional unit.

Each regional organization would be controlled from below, each unit electing one member to the next higher level. Each officer would be subject to recall and initiative and referendum would be exercisable.

Such a structure of regionalism can develop only when and where people realize and are conditioned to regional organization and action as implements to democracy. It will develop somewhat fortuitously at first and later by deliberate action. Functional co-operatives will add increasing services for the region they serve until by self-conversion they become complete regional organizations. The people of another region will deliberately organize for democratic action. In another region various organizations will affiliate to become an integrated regional unit. Leadership, including political scientists and economists, will control the rate of development.

The end of the war will bring a determined effort to maintain peace. But peace will be no Utopia. It will be merely an opportunity to get on with the business of building a better world which is the responsibility of all the people. To us a better world is a democratic world. Democracy is organization enabling people to control the controllable forces that affect their welfare. Regionalism is the effective basis for organization and action for better democracy.

CRUCIAL DEFICIENCIES OF REGIONALISM[1]

By WALTER M. KOLLMORGEN[2]
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Regionalism holds little promise of productive application in the political field in this country. There are numerous reasons for this, but only the following few will be considered in this paper: (1) regionalism ignores present-day trends towards collectives and functional groups, which exhibit little or no "regional" quality; (2) regionalists do not exhibit accumulative experience and knowledge or unity of purpose or method; (3) the essence of regionalism, like that of nationalism, is psychic, and even the most serious advocates of regionalism have failed to examine or portray the quality of the regional spirit which may or may not be worthy of political expression; (4) regionalists have failed to exorcise the bogey of sectionalism; (5) regionalists have failed to list categories of problems that can be handled better on the regional level than on any other level; (6) regionalism runs counter to technological aspects of society which are universal and dominant and will eventually prevail over discordant folkways, which regionalists may try to perpetuate.

Before examining the shortcomings of the proposals of regionalists, a brief statement of definitions of regions is necessary. In an attempt to find a common ground here the literature on regionalism is more revealing than standard dictionaries. Dictionaries may define a region merely as "a large tract of land; indefinite area; a district; tract, etc." Regionalists, however, attribute more definite qualities to regions. Perhaps the most helpful suggestions concerning the nature of regionalism are found in Chapters 11 to 14 of *Regional Factors in National Planning and Development,* published by the National Resources Committee in 1935. After soliciting definitions from a number of prominent geographers, the writers conclude that there are single-factor regions, administrative regions, and composite regions. Single-factor regions include soils regions, vegetative regions, climatic regions, and others that are useful devices in research, teaching, description, and partly for planning. Singly, these do not form the basis for regionalism. The second type, administrative regions, includes Federal Reserve districts, Internal Revenue districts, reclamation districts, and others. These are largely spacial arrangements made for the sake of convenience and like the first type do not form important bases for regionalism. The third

[1]While the writer is on the staff of the Bureau of Agricultural Economics, the statements and opinions presented in this paper are entirely his own.

[2]Many helpful suggestions in the preparation of this paper were received from Robert W. Harrison and from my sister, Johanna.

type, composite regions, is defined as "areas of unity and homogeneity measured in terms of several or many factors." Unity and homogeneity are applied to both physical and cultural factors, and the latter clearly includes psychic qualities.[3]

The alleged quality of psychic unity is important because in its absence regionalism becomes merely a device to administer affairs in variously delimited geographic areas occupied by citizens who feel no common bond of tradition or purpose. The proof of psychic unity would lend to regionalism a strong practical basis, whatever its other attributes. In the absence of psychic unity regionalism becomes pointless and loses its academic and political appeal.

With these premises in mind, the above listed deficiencies of regionalism will be examined.

I

Modern industrial society is characterized by individuals acting through collectives and functional groups, which respond to the rational demands, purposes, and interests of the groups which compose them. These collectives and functional groups are formed by the free choice of individuals who have common purposes in view—purposes which usually encompass economic ends. As society becomes increasingly secular and industrial, economic ends become more compelling, and for this reason our society is becoming increasingly compartmentalized into various producing groups, marketing groups, consumer groups, and service groups. There is little evidence that these various groups fall into consistent geographic patterns, which in turn might support forms of regionalism with economic and political implications.

Functional or interest groups operate in all lines of economic endeavors and many thousands of them are in existence in the United States. They range from small local co-operative processing plants to powerful national labor organizations. Even on the national level there are many hundreds of these groups, and few of them fall into a consistent regional pattern. This is well illustrated in a compiled list of national organizations with permanent representatives in Washington, where the exercise of influence is becoming increasingly important. Such a list is presented in Monograph 26, *Economic Power and Political Pressures,* prepared by the Temporary National Economic Committee of the 76th Congress (Washington, 1941). A great many organizations, national in scope, are not included; nevertheless, the report lists 383 organizations, the first dozen of which are the following:

[3] See also Howard W. Odum and Harry Estill Moore, *American Regionalism* (1938), Ch. I, and Harry Estill Moore, *What is Regionalism?* (Southern Policy Papers, No. 10, University of North Carolina Press, 1937), pp. 8, 13.

Air Line Pilots Association
Air Reserve Association of the United States of America
Amalgamated Wage-Hour Bureau
American Academy of Accountancy
American Action
American Association for the Advancement of Science
American Association for Economic Freedom
American Association of Independent Small Business
American Association of Junior Colleges
American Association of Motor Vehicle Administrators
American Association of Museums
American Association of Nurserymen

Organizations listed under other letters of the alphabet are equally varied in interest and geography.

Although functional interest groups are commonplace and ubiquitous in our society, there is no reason to believe that they have reached their peak in numbers or in influence. In some sections of our country there are still large numbers of rural people who linger at or near the subsistence level of living. As these people are drawn more and more into the stream of commercialized activity they will inevitably face problems of production, marketing, and buying that will lead to collective interest and action. Realism and self-interest will find expression in organization to seek group consideration. Obviously, the emergence of special interest groups leads to a decline in geographic and folk consciousness. For example, farmers A and B may be neighbors, one producing butter and the other cotton. A joins a butter association, closely identifying himself with butter producers in all parts of the country; B, on the other hand, joins one or several cotton associations, and so identifies himself with a group which produces some products that compete with butter. A conflict in interest here is not only apparent but real. This is the pattern and the trend in all emerging and functioning industrial societies.

Recent trends in our economic history have served to stimulate the formation of collectives and functional groups. Our early frontier economy was governed largely by effective market demands and was relatively free of regulations and restrictions. More recently, however, production and price controls, with their many implications for producers and consumers, have become rather commonplace. Most of these regulations and controls operate within a federal framework, with the result that more and more interest groups look to Washington for favorable legislation and controls of various kinds.

The emergence and development of the present-day industrial

society, with its interest in individuals and their action in collectives and functional groups, have been well described by historians, anthropologists, and sociologists.[4] Recorded history goes back well beyond the day of these groups. Prior to their development, man lived in an irrational, sacred society which offered few opportunities for individual choices. In fact, the individual as we know him today did not even exist in the primitive or tribal society. Kahler in his helpful *Man the Measure* writes: ". . . human history appears as an evolution leading from the pre-individual community to the post-individual community, through the development and completion of the individual."[5] In the preindividual society man was an integral member of a clan, species, tribe, community, polis, or feudal fold, all of which were dominated by sacred orders, which embodied common traditions, customs, habits, and rituals. In this setting, man had no distinct feeling of individuality and no realization of an individual self. In this stage of "organic and psychological solidarity" the tribal members had no life of their own "beyond the pale of their species."[6] Individual choices were largely taboo, and identification with the community was complete and absolute. As Sorokin, Zimmerman, and Galpin point out:

> Under such circumstances there is a natural collective responsibility and collective consciousness. The fault of a member is the fault of the community; the achievements of a member are the achievements of the community; the community rather than the individual is the social unit that bears the responsibility. The community engulfs the individual and makes him an integral part of itself.[7]

It is in the transition from the sacred to the secular society that the postindividual evolves—an individual who recognizes his identity as separate and distinct from that of his fellow man. In this change traditions, customs, and rituals are relegated to the background and the individual is confronted with rational choices. In the absence of tribal or communal security, the individual finds it expedient and at times imperative to become identified with numerous organizations or collectives. This is the modern collective order of our industrial society with its multitudes of functional groups. As Kahler states:

> In primitive participation the species or the tribe precedes the individuals; in modern communism the individuals precede the collective. Thus we must consider the primitive tribe as an independent entity which has a mystical effect upon the whole emotional existence of its members. The tribe produces its individuals but is not derived from them. The modern collective is built up by rationally conceived outward aims that individuals have in common.[8]

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[4] Pitirim A. Sorokin, Carl C. Zimmerman, and Charles J. Galpin, *A Systematic Source Book in Rural Sociology* (1930), Vol. I, Part II; Ferdinand Tonnies, *Fundamental Concepts of Sociology (Gemeinschaft und Gesellschaft)* translated and supplemented by Charles P. Loomis (1940); Erich Kahler, *Man the Measure* (1943).

[5] P. 21.

[6] Kahler, *op. cit.*, p. 37.

[7] *Op. cit.*, p. 326.

[8] *Op. cit.*, pp. 39-40. See also J. H. Kolb and A. F. Wileden, *Special Interest Groups in*

The full transition from a sacred to a secular society is by no means an accomplished fact in this or any other country. Qualities and characteristics which were common to the feudal tribe, polis, or feudal fold are still discernible in our present-day society, varying in intensity among classes and among places. It is natural and even imperative that much of the past remain with us if we wish to manage our affairs smoothly and effectively. However, the number of individual choices and selections which confront us today far surpass those of the past, and their existence implies a collective society.

The above analysis is presented because of the implication it carries for the regionalists. Regionalism assumes certain psychic qualities which are closely related to the ideals of the clan, the community, and the tribe, as well as to nationalism. These are built on a core of irrationalism, as has often been pointed out. This statement may well be denied in part, particularly insofar as it applies to regionalism. Proponents of regionalism, however, have failed to portray a realistic picture of the psychic qualities of the regional mind which is anything other than irrational. This point will be given further consideration later, but it seems proper to point out here that some of the earliest and most insistent proponents of regionalism were French poets and writers who wished to preserve the local customs, festivals, and folkways in the French provinces from the leveling influences exerted by the city of Paris. To preserve customs, festivals, rituals, and dialects they proposed to decentralize the government and to establish regional universities. The latter apparently were to perpetuate regional truths, for, as one French writer pointed out, there are "Lorraine, Provençal, and Breton truths."[9]

Many interesting parallels can be drawn between the regionalist movement in France and in this country, but time limitations forbid such an effort here.[10] The important point to emphasize here is merely

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Rural Society (Univ. of Wis. Agric. Exp. Stat. Res. Bull. No. 84, Madison, Dec., 1927). Sorokin, Zimmerman, and Galpin report: "In 1920 Kolb thought he found cumulative communities in Wisconsin; in 1925 he was sure that such did not exist." *Op. cit.*, p. 331. This conclusion should be of special interest to regionalists in that psychic unities are commonly attributed to both regions and rural communities. See, for example, Lucien Brocard, "Regional Economy and Economic Regionalism," *Annals* (American Academy of Political and Social Science), July, 1932, pp. 81-92. The emergence of functional and interest groups in our rural society has brought much frustration to those still looking for the rural community in all rural settings.

[9] Hedwig Hentze, "Regionalism," in *Encyclopedia of the Social Sciences*, Vol. XIII, pp. 208-218. This statement is reminiscent of George Fitzhugh's *A Sociology for the South*, which was written about a century ago. Harry Wish, in *George Fitzhugh: Propagandist of the Old South*, points out that this Virginian was one of the most vigorous and able defenders of slavery and the southern way of life.

[10] See, for instance, Hedwig Hentze, "Regionalism," *Encyclopedia of the Social Sciences*, Vol. XIII, pp. 208-218; Donald Davidson, *The Attack on Leviathan* (1938), and "Where Regionalism and Sectionalism Meet," *Social Forces*, Vol. 13 (Oct., 1934), pp. 23-31; also *I'll Take My Stand*, by Twelve Southerners (1930). Hentze refers specifically to Mistral,

that in the continuum from the sacred to the secular society, or from the preindividual to the postindividual society, regionalism finds its setting in the former rather than in the latter society and proposes to build permanent institutions on social qualities which are disappearing. Because of the transition now in progress, regionalism already takes on many of the aspects of a form of antiquarianism. Its vision lies in the past, not in the future.

II

A second major deficiency of the regionalist movement is that its advocates have failed to exhibit accumulative experience or knowledge and have shown no unity of purpose or method. This deficiency becomes the more striking when it is recalled that this movement finds its most ardent advocates among literary men and academicians. Certainly proponents such as these should be familiar with the tools of research and be aware of the need for building up a body of data and knowledge that is clear and consistent. This fundamental requirement has not been met in this country; in fact, mounting literature on regionalism only makes the subject more confused.

One of the problems confronting the advocates of regionalism is the amorphous name of the movement. The failure to endow the name "regionalism" with any specific meaning leads to all manner of misunderstanding and confusion of purposes. Naturally this has led to a situation in which regionalism is proposed as a solution of every conceivable kind of problem. The report of the National Resources Committee referred to above recognizes this fact in the categories of types of regions it describes. As pointed out above the regionalist movement is based on "composite regions," which should exhibit an observable degree of homogeneity in physical and cultural factors and should demonstrate a high degree of psychic unity.

A number of contributors to this planning report point out that a watershed usually does not meet the requirements of a composite region and therefore is a poor and unsuitable area for regional planning. Some of these contributors refer specifically to the Tennessee Valley which, they say, does not meet the requirements of a region. On the other hand, numerous quotations can be gathered from the same publication which treat the TVA development as a form of regionalism. Such an indiscriminate use of the word "regionalism" cannot serve any other purpose than to confound and confuse those who advocate government

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an outstanding French regionalist and poet of the nineteenth century, who "lamented the subjection of the much more cultured south [in France] by the 'barbarians' of the north and above all the fact that this fusion of the north and south went beyond the stage of our *état fédératif.*" Pp. 210.

planning and decentralization, or deconcentration. The TVA represents an effort of areal planning and decentralization; it is not a regional organization. The fact that water runs down the many slopes of a river basin does not make a region of such a basin.

Although it appears that some effort was made to use the terms "region" and "regionalism" with some discrimination in *Regional Factors in National Planning and Development*, subsequent publications by the National Resources Planning Board show an easy forgetfulness of the progress that was made in formulating helpful definitions and concepts. This is shown in its planning reports (Parts I, II, III, and XII) dealing with the Pacific Northwest, the St. Louis Region, New England, and the Arkansas Valley. The Arkansas Valley certainly fails completely to encompass what may be considered an acceptable or a plausible region. This valley reaches from the lowlands of the Mississippi Delta to the Southern Rockies. In this basin there is neither physical homogeneity nor cultural homogeneity, and no psychological unity has ever been attributed to the people who live in this watershed. Similar questions can be raised about the other reports. Those who would promote the cause of regionalism would do well to insist upon a more discriminate use of terms.

Failure to benefit by accumulative experience in dealing with the concept of regionalism is demonstrated by the great number of publications and reports on the subject which show little consistency in purpose, approach, or essential definitions. The great majority of them cannot forego the temptation to refer to the TVA as a fine example of regionalism.[11] Some articles further assure the reader that the Tennessee Valley is a physical, economic, and social unit.[12] After this bland assurance, the writer may advocate some form of urban, watershed, or national regionalism, or even continental or hemispheric defense measures—all in the name of regionalism.[13]

[11] Among these is the noted Julian Huxley, who in his recent book *On Living in a Revolution* (1944) repeatedly refers to the Tennessee Valley as a region (pp. 139-146, "Tennessee Revisited: The Technique of Democratic Planning"). Unlike most other regionalists, however, he does not want to preserve alleged distinct psychic unities or cater to them; he wants to create them. He writes (p. 143): "This scheme is still young, but it should be of real value in generating a social self-consciousness in the region and relating it to the central authority, which otherwise might remain in Olympian detachment from popular feeling."

[12] For example: "The TVA is concerned primarily with a natural geographic, economic, and cultural area, the Tennessee River watershed, although certain of its activities extend far beyond the boundaries of that area." Quoted from "Relation of Federal Regional Authorities to State and Local Units," author anonymous, *Annals* (American Academy of Political and Social Science), Jan., 1940, p. 130.

[13] In 1927 Lewis Mumford wrote: "The prime use of a region is to capture sunlight and to convert it into forms that are useful for animal and human existence." *Sociological Review*, Oct., 1927, pp. 285-286. While in years past Dr. Mumford was an advocate of regionalism, his recent book, *The Condition of Man* (1944), frequently associates regionalism with nationalism and so questions rather than advocates the movement.

III

Regionalists point out that the essense of their movement is psychic, but they have failed to examine or to describe the qualities of the regional spirit which may or may not be worthy of political or administrative expression. The psychic qualities associated with regionalism are mentioned in numerous reports. For example, *Regional Planning, Part I—Pacific Northwest,* says, in part: "The ultimate test of homogeneity [from the standpoint of regionalism], even from the geographer's point of view, is therefore a psychic quality."[14] Odum and Moore, in *American Regionalism,* deal with this factor as follows:

> "Is there a regional history of America?" asks one group of students. The historian answers that there is. "Is there a regional psychology?" asks another. The literary and governmental folks have found out that there is. "Is there an average America?" asks still another group. Our foreign visitors and the statisticians tell us that there is not.[15]

Since psychological factors and psychological unity are stressed in reports dealing with regionalism, these qualities present legitimate fields of inquiry for research workers. Unfortunately, the mounting literature on regionalism neglects this field almost completely. It should not be necessary to point out here that social psychology is a well-established discipline with good research techniques and a wide choice of terms and terminology. Apparently social psychologists are prepared to serve the regionalists in determining the presence or absence of regional psychological unities and also in establishing whether the alleged unities will lead to desirable ends if given political or administrative expression.

Although regionalists have neglected the psychic qualities which they say accompany regionalism, writers in other fields have provided us with some interesting literature on the subject. Some of the better known works are Santayana's *The Last Puritan,* Cash's *The Mind of the South,* Glasgow's *Barren Ground,* and Roberts' *The Time of Man.* Interesting facets of psychological qualities are also presented in Couch's *Culture in the South* (and Lillian Smith's *Strange Fruit*). It is doubtful, however, that a careful searching of these books would establish a system of psychological values or outlooks that merit encouragement and perpetuation under the aegis of regionalism.

Novelists more than regionalists have explored and exploited folkways and what may be called "regional psychic qualities." It is interesting to note, therefore, that at least some of them realize that folk novels reflect a society in transition, not a society compartmentalized permanently in fixed molds. In reflecting on the novels of Faulkner,

[14] P. 99.
[15] P. 4.

Hemingway, Sherwood Anderson, and others, Bettina Linn inquires, "Don't they give us, indeed, a feeling more of finality than of promise, the sense of a job done, and well done?"[16] In these novels, the setting and the culture pattern are the important thing, for it is within the framework of these that the aspirations, defeats, and conflicts of the characters take place. But these special settings and folkways are giving way to the more cosmopolitan society of ideas and individual expressions. Future novels may be expected to be concerned increasingly with individuals and with the wind of universal doctrines rather than with folk attributes and aspirations. This change confirms the trend from the sacred to the secular society described above.

IV

Regionalists have failed to exorcise the bogey of sectionalism. Frederick Jackson Turner made us very much aware of sectional conflicts in this country, conflicts which grow out of what are conceived of as economic interests but which in the last analysis have nationalistic implications. Carried to their logical conclusion, sectional interests may lead to irredentist movements such as this country has experienced. The characteristics which Turner ascribes to sections can in large measure be ascribed also to several of the regions that have been projected in this country. Even the definition he formulated for *sectionalism* comes remarkably close to accepted definitions of *regionalism*. For example, Professor Turner writes:

> I shall recognize as tests of sectionalism all of those methods by which a given area resists national uniformity, whether by mere opposition in public opinion on the part of a considerable area, or by formal protest, or by combining its votes in Congress and in presidential elections, and also those manifestations of economic and social separateness involved in the existence in a given region of a set of fundamental assumptions, a mental and emotional attitude which segregates the section from other sections or from the nation as a whole. Sooner or later such sectional influences find expression in politics or legislation, and they are even potential bases for forcible resistance.[17]

Compare the above criteria of sectionalism with the following definition of regionalism:

> . . . "regionalism" is a clustering of environmental, economic, social, and governmental factors to such an extent that a distinct consciousness of separate identity within the whole, a need for autonomous planning, a manifestation of cultural peculiarities, and a desire for administrative freedom, are theoretically recognized and actually put into effect.[18]

Clearly a major problem confronting the regionalists is that of transforming the Mr. Hyde of sectionalism into the Dr. Jekyll of regional-

[16] "The Fiction of the Future," *The Yale Review*, Dec., 1944.

[17] Frederick Jackson Turner, *The Significance of Sections in American History* (1932), p. 288.

[18] *Regional Factors of National Planning and Development* (National Resources Committee), p. 138.

ism. Research and experimentation might have been employed in an effort to move beyond this impasse, but the literature on regionalism shows no such effort. Instead, the dilemma has been resolved by rather arbitrary statements of definition, which have become almost a standard fixture in articles on regionalism. Odum and Moore distinguish between the two terms as follows:

> . . . regionalism envisages the nation first, making the national culture and welfare the final arbiter. It is, therefore, essentially a co-operative concern. On the other hand, sectionalism sees the region first and the nation afterwards. It is, therefore, essentially a competitive emphasis. . . . Sectionalism emphasizes the autonomy inherent in political boundaries and state sovereignties. It confuses the state as a unity in the regional or national whole with the state as a separate entity. It emphasizes technical legislation, provincial interests, local loyalties. . . . Where sectionalism features separateness, regionalism connotes component and constituent parts of the larger national culture.[19]

At least for some of us it is difficult to understand how a study of our industrial society with its multiplicities of conflicts and rivalries can lead to premises such as these, the efforts of planners and academicians notwithstanding. Most people have never heard of regionalism, let alone embraced any of its utopian ideas. In the fields of manufacturing, commerce, agriculture, and labor we see intense competition and rivalry on every hand. This competition is reflected in a vast, intricate structure of legislation and controls dealing with our economy. More specifically, this competition is shown by our tariff legislation, by state barriers to trade, by our advertising industry, and by our well-known lobbying activities, some admittedly sectional. In these activities we find a picture not of harmony and spontaneous mutual service but of seeking for special advantages and even monopoly. It does not seem likely that planning or regionalism will modify them to any marked degree. Moreover, since regionalism does not deal with the working components of our society, namely, its functional groups, it cannot serve as a satisfactory basis for planning.

The easy distinctions made between sectionalism and regionalism have by no means resolved what some consider the problem of sectionalism. Both the definition and the geography of Turner's sections[20] fit most of the proposed regions only too well, and some advocates of

[19] Odum and Moore, *American Regionalism* (1938), pp. 42-43. Apparently these distinctions were first stated by Dr. Odum in "Regionalism vs. Sectionalism in the South's Place in the National Economy," *Social Forces*, Vol. 12 (Mar., 1934), pp. 338-354.

[20] In *The Significance of Sections in American History*, Dr. Turner lists the following sections in the United States: New England, Middle States, Southeast, Southwest, Middle West, Great Plains, Mountain States, and Pacific Coast (pp. 315-316). Dr. Odum recognizes the following regions: Northeast, Southeast, Middle States, Southwest, Northwest, Far West. "Regionalism vs. Sectionalism in the South's Place in the National Economy," *op. cit.*, p. 347. See also Odum and Moore, *American Regionalism*, pp. 462-617. The National Resources Committee, in *Regional Factors in National Planning and Development* (p. 195), agreed on the following cities as regional centers: Boston (New England), New York (Eastern), Knoxville (Ozark-Appalachian), Atlanta (Southern), New Orleans (Gulf Coast), Chicago (Midwestern), Portland (Pacific Northwest), San Francisco (Pacific Southwest), and Denver (center for either or both Intermountain region and Great Plains).

regionalism[21] or writers on regionalism[22] are not confused by the old wine served in new bottles with new labels. For example, Donald Davidson, after quoting Dr. Odum's now famous definition, concludes:

> The distinction must be granted so long as regionalism operates only as a technique of social study. But when regionalism goes into action and becomes not only a study but a working force, or even a doctrine, the distinction tends to break down. In the field of action the two terms are far from being opposed. They are complementary aspects of the same thing. Sectionalism is the political approach, and regionalism is the economic and cultural approach to an identical set of facts.
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> . . . .
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> Regionalism and sectionalism meet, therefore at the point where action succeeds the compilation of data.[23]

Since regionalists are clearly determined to operate in the political field, Davidson's interpretations are not reassuring to those who hold that sectionalism is far removed from regionalism.[24]

V

If regionalism is to become an effective and constructive governmental arrangement, it must be demonstrated that there are categories of problems that can be handled to better advantage on a regional level than by existing governmental units. To date, no agreement exists regarding such categories of problems. Literature on the subject, however, makes it quite clear that regional organizations are to be preoccupied largely with economic problems—problems which the federal Constitution reserves largely to the federal government, an arrangement which has in general been eminently successful. Under the stimulus of a large market, American industry has expanded rapidly until this country has become the foremost industrial nation in the world. This achievement might well have been retarded if the powers delegated to the states had encompassed more authority in industry and commerce, as is shown by the many complicated barriers to trade

[21] See, for instance, Donald Davidson, "Where Regionalism and Sectionalism Meet," *Social Forces*, Vol. 13 (Oct., 1934), pp. 23-31.

[22] See William Allen White, "Unity and American Leadership," *The Yale Review*, Sept., 1942, pp. 1-17.

[23] "Where Regionalism and Sectionalism Meet," *op. cit.*, pp. 24-25.

[24] Other revealing statements from Mr. Davidson's article follow: "This is not the place to consider why we ever labored under the delusion that it was otherwise with us [speaking of the differences among people in various parts of the country]. The delusion now seems to be passing, and with its passing the sociologist, who is the student of cultures, has come into a vastly important new field. With his colleagues, the economist and the geographer, he is studying the areas of differentiation which historians have hitherto called *sections*. But the terms *section* and *sectionalism* seem too loose and political to win acceptance from the practicing scientist. The scientist wants a scientific term; in particular he wants to escape the taint of war and confusion that hangs about the older words. Therefore, he uses the words *region* and *regionalism* and proceeds to develop a new method of studying American life.

"Of all the Americans who are affected by this turn of affairs, the Southerner is naturally the quickest to rejoice. All the time he has known that the South is unlike other parts of the nation. . . .

"The New Regionalism, as it is now often called, is thus a powerful confirmation of the justice of the old southern claims, and perhaps also of the desirability of maintaining the

that have been erected by the states, creating interstate rivalries, conflicts, and friction.[25]

Regionalism may come about either by compacts among states or under the framework of federal laws. In spite of alleged regional solidarities, the number of working compacts in this country is still small. For this reason regions as federal units appear more promising. As federal units, regional agencies will intrude themselves into the economic sphere. Such intrusions are inevitable if regional agencies are to attack the many problems that are so frequently associated with regions and for the relief of which they are advocated. Strength through size, in combination with inflated regional loyalties—of which we hear so much—may well lead to new forms of trade barriers and to new and powerful forces of privilege. This is particularly likely if some local interests fail to become imbued with the idealism of regionalism, and merely use the new arrangement to seek selfish objectives.

It is becoming increasingly more difficult to point out where local, national, and international economies merge. In fact, true local economies are almost a thing of the past. This means that it is on the national and international levels that stresses in our economy are registered, and it is on these levels that controls and regulations must be exercised. This has become particularly true since the advent of price controls and production controls. Any new interposition of governmental authority between the federal government and its parts can therefore only serve to complicate an orderly development and control of our economy. Unless regionalists can clearly demonstrate the effectiveness of their device, regionalism must stand condemned as an unnecessary complication, unsuited for adoption.

VI

Technology is universal, is rapidly becoming dominant, and will eventually prevail over discordant folkways, which regionalism would apparently try to discover and perpetuate.

Developments in recent decades have made it abundantly clear that technology is world wide and is a prime force establishing levels of accomplishment for those who wish to survive or prevail. Not only must the dominant nations produce vast amounts of material of intricate design, but these materials must excel. Such production has

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differentiations that once were damned and dismissed as sectional. Not without significance, too, is the notable fact that the study of regions has proceeded most enthusiastically and fruitfully in the section which once went to the length of fighting for its independence." *Ibid.*, pp. 23, 24. See also his article "The Political Economy of Regionalism" in *American Review*, Vol. 6 (Feb., 1936), pp. 410-434.

[25] F. Eugene Melder, "Trade Barriers between States," *Annals* (American Academy of Political and Social Science), Vol. 207 (Jan., 1940), pp. 54-61.

outmoded handicraft or stylized folkway methods. There are no folkways in the application of electronics, medicine, chemistry, physics, or even in the mass production of superior fiber or cloth. Our industrial civilization will be built more and more on mass production of goods made according to a calculated scale or scientific formula. Desire for these goods calls for planned production and integrated activity on the part of all who desire them. Obviously, these common goods will become more and more standardized, and this standardization will serve to remove the psychic differences among people who use them. While the complete dominance of technology may seem remote, the movement in this direction is clear and unmistakable. Any program or institution which impedes this unifying process will only sustain for a longer period the instability, friction, and discordance which accompany its attainment.

The prospect of a large society relatively free of peculiar folkways and traditions may be condemned by some on the basis of mass monotony, or the absence of folk-differences which lend a certain fascination to travel, study, or association. However, such a society will make possible a fuller development and greater variety of individual personalities as contrasted with the stylized personalities which are the product of regional folk cultures. The distinguishing characteristics of the stylized personality will likely be treated as personal maladjustments whenever regional lines are crossed or when a cosmopolitan society is entered.

That traditions and folkways have special appeal for both the unsophisticated and the sophisticated is understandable. However, tradition is not self-beholding and self-evaluating. Nor does it encourage objectivity with respect to unlike traditions and cultures; instead it is given to moral judgment and intolerance. With increasing understanding and objectivity tradition as such declines and eventually ceases to exist as a distinct entity. It gives way to a type of cosmopolitism without creed or color. This development, once it becomes widespread, has much to recommend it, for folkways and tradition, through compartmentalization and segmentation of the world society, have been the source of constant frictions, rivalries, and even wars. After a breaking down of these barriers and differences, the world society may contemplate more rational actions in the future. While this prospect is not an immediate one, it may well be delayed further by the proposals of regionalists.

FOOD AND AGRICULTURE: OUTLOOK AND POLICY

AGRICULTURE IN THE TRANSITION FROM WAR TO PEACE

By H. R. Tolley and Others[1]
Bureau of Agricultural Economics

The time to cast iron into a new mold is while it is molten. Human institutions, habits, and values throughout the world are now in flux and will remain so until the reconversion from war to peace is ended. They became fluid under the heat of war that forced people into new jobs, new homes, and new patterns of producing and consuming. As soon as the war is over—perhaps even sooner—they will begin to crystallize and harden into the pattern of the postwar world. The policies followed by the United States and other countries of the world right now and in the years immediately ahead will shape that pattern. But from now until the last soldier has been demobilized, the last farmer and manufacturer have reconverted their production from war to peace, and the last war worker has decided whether to go back to his home town or hunt a new job where he is, the shape of the postwar world will be progressively harder to change. There will, of course, be change and progress in later years, but at the slower pace characteristic of long-time trends and educational processes.

We might, of course, sit back and accept the view that nature's way is best and that supply and demand, if allowed to function unhindered, will bring everything into balance in the long run. So it may. But that reminds me of the logic of a traveler in the desert who came first upon the skeleton of a man who froze to death in winter, and then, a little farther, upon the skeleton of a man who had died of a heat stroke in summer. The traveler estimated that the maximum and the minimum temperatures averaged a delightful 70 degrees, but it did not restore life to the victims of the desert. In other words, the time required to average out the highs and lows of our economic system can be very painful and sometimes fatal.

I have been asked to discuss food outlook and policy in the war-peace transition; and to cover as much of the world as possible. However, neither the time nor the data available are adequate for such a cosmic review of even the current situation, let alone the outlook for the next few years. So I must limit my remarks to some highlights of the food outlook and food policy in the United States, bringing in the rest of the world only incidentally.

[1] The others who assisted Mr. Tolley in the preparation of this paper were F. F. Elliott and J. F. Thackrey, of the Bureau of Agricultural Economics, and F. V. Waugh and Rainer Schickele, of the War Food Administration.

In fact, I shall be content if I can establish four main points: 1. If the United States attains adequate nutrition for all its people and a moderate increase over our prewar level of exports, we shall need as much food as our wartime record production. 2. For adequate diets, the world would need far more food than is now produced. 3. At or soon after the end of the war, there will be some production-consumption imbalance as between commodities and between geographical areas; and there will be some wartime reserves to be disposed of outside regular marketing channels. 4. In the United States in particular and the world in general these problems can be solved if the governments concerned adopt the necessary policies to encourage full consumption, intercommodity shifts in production, and increased world trade—in short, to carry out the objectives of the Hot Springs Food Conference and the proposed Food and Agriculture Organization. Without such policies the problems may be insoluble.

In my discussion I shall not make any forecasts, except to repeat the food outlook forecasts already published by the Bureau of Agricultural Economics. Rather, I shall state certain sets of assumptions and analyze the situation that might logically develop from these assumed conditions.

In order to keep the possible sequence of events during the transition clear-cut, let us divide the next part of the discussion into two time-segments: (1) The current situation, embracing recent trends as well as the 1945 outlook; (2) the postwar transition period—and particularly the first and last years of that period.

I. *The Current Situation*

Food Production and Consumption. Let us begin by looking into prewar trends and wartime changes in food production and consumption, first in the United States and then, very briefly, in the rest of the world. After that perhaps we can draw some conclusions about the adequacy of diets and means of improving them.

The United States. In the United States, production of food crops and livestock increased at about the same rate as population increased during the three decades before this war. There were fluctuations brought on by weather, commodity price cycles, World War I, and the boom and depression. Throughout the period, output per farm worker increased steadily.

There was a trend toward increasing production and consumption of truck crops, oil-bearing crops, fruits, and nuts. Consumption of fruits and vegetables, per person, increased about 40 per cent. Per capita consumption of dairy products, fats, and oils increased slowly. Consumption of eggs moved cyclically and the average trend for the period

was nearly horizontal. Per capita consumption declined for meats, poultry, and fish, as a group, and it declined 25 to 30 per cent for grain products, potatoes, and sweet potatoes.

The prewar consumption trend for individual nutrients, per capita, was definitely upward for calcium, fat, ascorbic acid, vitamin A, riboflavin and phosphorus, slightly downward for carbohydrates and niacin, and about level for the rest.

During the war, production of food crops and livestock alike, in the United States, has increased much faster than total population. There have been shortages of some foods at specific times and places, owing in part to the fact that in the last year or two one-fourth of our food has gone to military and lend-lease uses, in part to imperfect distribution, and in very large part to the fact that the average civilian can pay for more and better food than ever before. However, per capita civilian consumption of food was higher in 1941 and in 1944 than at any other time for which we have records.

The most significant wartime increases have been in oil crops, with production last year over two and one-half times the 1935-39 volume, in truck crops, 145 per cent of the prewar volume, and in livestock products. Loss of imports from the Pacific required the increase in oil crops; and needs of our Allies and armed forces impelled the increase in animal proteins which can pack a maximum of food into a minimum of shipping space. There have been wartime increases in the production of most other commodities except sugar and cotton.

During the war, there have been marked increases in the per capita civilian consumption of all the nutrients except vitamin A, ascorbic acid, carbohydrates, and calories, and these have held fairly constant.

Output per farm worker increased nearly 30 per cent from 1940 to 1944; and crop yields per acre during the war have averaged about 30 per cent above the predrought (1923-32) average. Probably one-third of this increase in yields is due to exceptionally good weather, and two-thirds to improved technology—for example, mechanization, use of more fertilizer, improved varieties, and conservation programs.

Favorable prices and abnormally long hours of work have contributed to the increased output both per acre and per worker.

The revised 1945 agricultural goals call for continued all-out production, with an increase of nearly 5.5 million acres of cultivated crops and 3.3 million acres of tame hay (altogether nearly 9 million acres or 2.5 per cent) over the acreage of crops planted or grown in 1944. However, attainment of these revised goals for crops and livestock, assuming average yields and normal disposition of crops, would result in total food output about 6 per cent below the record output of 1944.

By commodities, the changes from 1944 would be: milk, up 2 to 3 per cent; meats, down about 8 per cent; eggs, down 9 per cent; fats and oils (including butter), down about 10 per cent; truck crops, down 14 per cent; food grains, down 23 per cent. Of course, if we are fortunate enough to have a continuation of the unusually good weather of the last few years, or if farmers exceed some of their goals, food output would be correspondingly greater than these figures suggest. On the other hand, if the weather should be below average or if farmers are unable to reach some of the goals, food output would be correspondingly less than these figures suggest.

The World. Recent estimates of the Office of Foreign Agricultural Relations give us this picture of wartime trends in world food production in terms of calories, which are an admittedly inadequate measure but probably the best available for making international comparisons:

Total world food production has increased moderately since the start of the war, but not more than the estimated increase in world population. In North America, food output was about 40 per cent higher in 1944 than in 1935-39. In South America, in 1943-44, it was about 25 per cent above the prewar level. The United Kingdom increased its total food output sharply, but much more of the calories now come from food crops and fewer from animal products except milk. In Europe, North Africa, and the Middle East, food production is down 5 to 10 per cent. In the Soviet Union, Occupied China, and the Dutch East Indies—where data are incomplete—the decline probably has been greater. India, in 1943, had one of the largest rice crops in twenty years; and favorable crop conditions this year in China and Manchuria have temporarily eased the tight food situation.

Crops make up a larger percentage of the world production, in calories, than before the war, and a much larger percentage in Europe and North Africa, the Middle East, and Southern and Eastern Asia. Only in the United States and the area including Australia, New Zealand, and South Africa has the percentage of livestock in the total calorie production increased substantially.

The 1944-45 output of food on the continent of Europe outside the Soviet Union lines up about as follows, according to the best estimates now available:

Production of grains apparently was below that of any other war year and considerably below the average for 1933-37, when net imports amounted to 7 per cent of production. Production of potatoes was substantially below the prewar average. Sugar production probably was below the 1943 output, which was about 85 per cent of the prewar average. Vegetable oil production is estimated at 8 to 10 per cent below

the record output from crops harvested in 1943, but is still one-third above the prewar average. This increase, however, replaces less than a third of the prewar imports.

Meat output in 1944-45 may be slightly larger than in 1943-44 but about one-fourth smaller than before the war. Europe, of course, had some net exports of meat before the war.

The wartime decline in milk production has been partly offset by the fact that exports—about 5 per cent of prewar production—have been discontinued. Milk production in 1944-45 is expected to be about the same as in 1943-44, but prospects are somewhat better in areas outside German control than in German territory. Not much change is expected in egg production this year, though a further decrease appears possible for Germany.

In the Soviet Union, grain production this past year may have been 150 to 175 million bushels over the 1943 output of the invaded and uninvaded areas combined. Production of potatoes apparently was above that of other recent war years. Output of sugar, although above recent war years, was still far below the peacetime level. The Russian people have been increasing their gardening. On the other hand, a shortage of fats, meats, and dairy products is expected to continue in 1944-45, and the general food situation will remain tight.

Consumption—in calories and as an average for the whole population—probably was maintained last year at 90 to 100 per cent of prewar levels in the United Kingdom, Denmark, Czechoslovakia, and Western Poland; at 80 to 90 per cent in Austria and Germany; at 70 to 80 per cent in Yugoslavia, Finland, Norway, the Netherlands, and France; and at 60 to 70 per cent in Belgium and Greece.

Adequacy of Diets. How nearly adequate are the diets of the people of the United States and the rest of the world? A League of Nations committee reported in 1937:

> In the U.S.A. and western Europe much malnutrition exists among the lower income groups. Available data suggests a figure between 20 per cent and 30 per cent of the entire population. . . . Some 75 per cent of the 1,150 million inhabitants in Asia have a diet far below the standard for health.

The United States. In 1935-39, our total civilian food supply in this country had enough energy, vitamins, and minerals, when it reached the kitchen, to meet minimum health standards for the whole population except for a shortage of calcium and riboflavin. Kitchen waste and cooking losses reduced the average per capita supply of thiamine and perhaps a few others below the quantities recommended by the National Research Council. The most striking wartime increases were those resulting from food enrichment—and this, incidentally, holds a great deal of significance as one possible means of improving diets after the

war. Enrichment was largely responsible for a one-third increase in the consumption of thiamine, and lesser increases in niacin, iron, and riboflavin.

As we have already pointed out, a good average can be unsatisfactory or even fatal to individuals—whether it be average temperature or diet. For example, in 1936, because of inadequate buying power and inadequate knowledge of nutrition, less than a fifth of the families in this country had diets fully adequate in all of seven basic individual nutrients; and by 1942, although the situation was somewhat better as a result of higher incomes and progress in nutritional education, it is estimated that half of all families still had too little riboflavin in their diets and 25 to 30 per cent had too little calcium and thiamine.

The World. Assuming perfect distribution of food, you could count on one hand the countries of Europe that come close to having enough calories now available per person for an adequate diet. People in the German-controlled areas last year probably consumed, on the average, about two-thirds to three-fourths as many calories as people in the United States. The situation was particularly bad in Greece and the nonfarm areas of Belgium. Disruption of normal farm-to-city distribution aggravated the distress of urban areas.

I realize that many people would laugh at the good Samaritan as a rather ridiculous Santa Claus if he were alive today. But I think it is safe to say that we shall not arrive at the initial period of relief and rehabilitation in Europe with too much food in total, by any reasonable standards. When the war is over in Asia as well, about all we can say is that the need for food will outrun any quantities that we and other surplus-producing areas can hope to supply. The question boils down then to a matter of how much food the countries involved or the United Nations collectively can and will pay for, how much transportation is available, and how low a price we and the other surplus-producing countries are willing to accept.

The situation that confronts us led one qualified observer to write:

> It is equally wrong to say that Europe is starving or to say that there is no starvation in Europe—or no threat of starvation ahead. . . . It is misleading to talk of our having to feed the populations of the countries we liberate in Europe. . . . Most of the food that the peoples of these countries will eat they will produce for themselves. Of the imports that are needed a large part will come from countries other than the United States. But the quantities that we can send may swing the balance in critical cases from starvation to survival—from unrest to stability. Seldom will we find a situation in which so much can be accomplished with so little. Relatively small percentages of the food supplies we have—wisely used in meeting the needs that are greatest—can bring enormous benefit not only to Europe but to the world in general.

A generously large estimate of the quantity of food that can be released at the end of the war in Europe from our storehouses in this country and in Europe, from the military pipeline, and from wartime

reserves in Great Britain, probably would not exceed 10 million tons—about one-tenth of the quantity of food we consume annually and a slightly smaller fraction of the food we produce. It probably would be equivalent to less than 5 per cent of the food consumed annually in Europe. In total, the United States produces each year only 7 to 8 per cent of the world's food supply.

II. *The Postwar Situation*

What Policies for the Future? Summing up the discussion this far, we have pointed out a prewar trend toward increased per capita consumption of protective foods in the United States; and a marked wartime increase in food production in the Americas and the United Kingdom offset by a constant or declining volume of production in most of the rest of the world. World production of calories per capita is apparently at least no greater than before the war. Diets of a large share of the world's population have never been adequate for good health, even under the best conditions.

Turning to the future, we can traverse the problems of the transition from war to peace by either of two main avenues. We can assume that either our conscious purpose or the unplanned course of nature will carry us back in the direction we came from before the war. But of course we can never go back all the way. Or we can assume that we want to reach a different destination and have the power to get there.

For my choice the best road is in the direction suggested by the constitution of the proposed Food and Agriculture Organization of the United Nations:

> . . . raising levels of nutrition and standards of living of the people under their respective jurisdictions, securing improvements in the efficiency of the production and distribution of all food and agricultural products, bettering the condition of rural populations, and thus contributing toward an expanding world economy.

I should like to lay the groundwork here for some of the alternative assumptions I shall discuss a little later, by calling attention to certain facts about food consumption in relation to nutritional adequacy and to income.

We are often reminded that, as a nation, we eat too much—at least too many calories, and perhaps too much total poundage of food. Optimum diets for everyone, therefore, would not increase the market for foodstuffs by any perceptible amount—so runs the argument.

Now I cannot think of any practical plan for improving the diet of the average American after the war which would call for rationing chocolates to the overplump lady with a sweet tooth or in any other way restricting the intake of individuals who eat too much. Therefore,

any improvement in the diet is likely to add to the total food consumption.

Estimates based on the Consumer Purchases Study of 1935-36 indicate that families with incomes between $3,000 and $5,000 consume close to 48 per cent more in pounds of food per capita than families with incomes of $500 to $1,000. The range is far greater from families with incomes under $500 to families with incomes over $5,000.

The data and methodology for this type of study are perhaps still too experimental to justify sweeping conclusions. But the information available strongly suggests an increase in the volume of food consumed with increase in income; and this is especially true for tomatoes, citrus fruits, other fruits and vegetables, and livestock products. There is probably less elasticity, as a group, for dry beans, peas, and nuts; virtually none for food fats except butter, and a negative elasticity for flour and other cereal products except baked goods.

So far we have talked about pounds. But there is another even more significant way in which food consumption increases with increase in income. And that is a shift from relatively low-cost foods to relatively high-cost foods. To illustrate, a high-income family consumes more dairy products and less flour than a low-income family. It takes more land, labor, and other farm resources to produce a pound of dairy products than a pound of flour; and this employs a larger share of the national agricultural productive plant.

Obviously, then, if we want better diets on the one hand and an expanded market for farm products on the other hand, the best way to get them is to maintain a high level of real per capita incomes and improve the pattern of income distribution. There is no better proof than the fact that per capita civilian food consumption in the United States in 1944 was 11 per cent greater than in 1932—measured in constant dollar-value. And several million of our heartiest eaters were in the armed forces.

The First Year After the War. We can best give concrete form to the problems that may confront us in the transition from war to peace by presenting some hypothetical alternative situations during the first year and the last year of the transition period.

If the end of the war brings some reconversion unemployment and a lowering of per capita consumer income, experience in the last war suggests that roughly the following chain of events might occur:

Prices of goods that farmers buy would decline relatively slowly. I shall not take time to detail the reasons, which must be obvious. Prices of farm products would decline much more rapidly because of their relative abundance and because of the individual farmer's reluctance or inability to curtail his production. They might soon fall to

90 per cent of parity—the level at which the government is committed to support prices of most of the important commodities for two full calendar years after the end of the war. And incidentally this support period now would extend through 1947 at the minimum, and perhaps two or three years longer, allowing for the time required for "mopping up" enemy resistance and concluding a treaty of peace.

Let us assume, simply for the sake of discussion, that farm commodity prices fall to 90 per cent of parity (from 115 per cent in 1944), that retail prices during the first year after the war bear a normal relationship to farm prices at 90 per cent of parity, that military requirements of an army of occupation will then be about one-half the present military requirements, and that rationing will be terminated with the end of the war. In such circumstances we could expect domestic plus military consumption to fall short of production of most commodities except meats, dairy products, and canned vegetables.

Under these assumed conditions of moderate reconversion unemployment, prices averaging 90 per cent of parity, no rationing, and a 50 per cent reduction in military requirements, the government might have to buy or make loans on a large quantity of farm products to maintain price supports. The necessary purchases have been roughly estimated at 15 to 20 per cent of the eggs, 15 to 20 per cent of the dry peas, 5 to 10 per cent of the dry beans, 10 to 20 per cent of the potatoes, and nearly 50 per cent of the rice crop, in addition to loans on or purchase of huge quantities of wheat, feed grains, and cotton, the latter at not less than 92.5 per cent of parity as required by law. On the other hand, production might be 5 to 10 per cent short of requirements for meat and 10 per cent short for dairy products. All this, you will note, however, leaves lend-lease and relief or other exports out of the picture altogether.

On the other hand, suppose we are able to maintain full employment during the first year after the war. Such evidence as is available indicates the per capita consumption of food under such conditions, without rationing, might be 15 per cent above the prewar level. And the population may be 9 per cent above the prewar level. These estimates combined, if they are correct, would give us a food consumption about one-fourth above the prewar level. Food production in 1945, on the basis of the crop and livestock goals and assuming average yields, would be about 29 per cent above the prewar level. And if production and consumption prove to be at about these levels during the first year after the war, only a moderate increase above the prewar level of exports would be necessary to take up the remaining gap between production and consumption. But of course there would still be more of some commodities than the market would take at not less than 90 per cent of parity.

Perhaps we should pause here to examine some of the implications of price supports at 90 per cent of parity. The legal floors for most of the important commodities are based on a historical relationship of some three decades ago. Relative production costs for different commodities and relative demand for them has of course changed during the last thirty years. Therefore, prices uniformly at the minimum legal support levels would tend to increase production of some commodities of which we have too much and to hold back production of some commodities of which we have too little. Eggs and milk afford a striking illustration. At 90 per cent of parity, one hundred pounds of wholesale milk would be worth a little more than seven dozen eggs, on the basis of farm prices, because one hundred pounds of milk was worth a little more than seven dozen eggs in 1910-14. But in 1944, the average price of one hundred pounds of wholesale milk was equal to the price of more than nine dozen eggs (nearly eleven dozen, taking dairy production payments into account). And still, we had an undersupply of milk and a relative oversupply of eggs. Obviously, if the price of milk had been lower relative to the price of eggs—as it would be if both were at the same percentage of parity—egg production would have had still more advantage over milk production in competition for feed, labor, and other production resources. The government would have had to buy still more eggs to support prices and consumers would have had less milk and dairy products.

The War Food Administration met this situation part way by scaling support prices for different commodities upward to varying levels above 90 per cent of parity. The law, of course, permits floors to be higher than 90 per cent of parity. Some natural upward scaling of market prices also occurred for commodities in short supply—within the space between price floors and ceilings.

Now of course we could continue or even amplify this same arrangement after the war as long as support prices are in effect. The upward scaling of support prices has one advantage over the alternative of waiting for shortages to appear in the market and force prices upward. It is that production can often be increased one season earlier and the shortage made less severe by anticipating impending shortages and announcing higher support prices ahead of time. Either method gets rid of the market shortage eventually—in part by stimulating production and in part by reducing the volume that consumers will buy at the higher price. But forward pricing by the government in peacetime would invite commodity group pressures to make political rather than economic determinations.

Moreover, we cannot overlook the fact that the higher the price level we maintain for individual farm products, the lower will be the quantities demanded eithe[illegible]ne or abroad. This can easily aggra-

vate the relative oversupply of so-called "surplus commodities" and agriculture cannot afford to price itself out of any potential markets for farm products.

Consumers and taxpayers may not look kindly on support prices for farmers, after the war, if supports are permitted to operate in such a way as to require heavy federal expenditures to support prices of commodities already in oversupply; and if those expenditures maintain production of the same commodities at a high level. And continuing around the cycle, the average citizen may not look kindly on support prices if he thinks they have aggravated shortages of foodstuffs already in undersupply by retarding a shift in production from the commodities in oversupply.

One solution might be to set acreage allotments or marketing quotas and limit benefits of the support price to those farmers who reduce their production of commodities that are in oversupply. But the prewar adjustment programs were not too successful in reducing production of the so-called "surplus commodities."

A somewhat more desirable alternative might be to inaugurate an adjustment program patterned after the wartime goals, with payments for shifting into production of commodities in undersupply. Such payments should have the effect of bringing production of individual commodities into better balance as well as supporting prices or returns from the crops likely to be in oversupply; and it should prove less expensive than loan or purchase operations. But it might be harder to administer.

Another alternative might be to redefine parity in some manner that would lower the parity prices of commodities for which there have been the greatest relative decreases in consumption or in costs of production since 1910-14; and to correspondingly increase the parity prices of commodities for which there have been the greatest relative increases in consumption or in costs. But such a modernization of parity is obviously easier to discuss than to achieve.

The important thing to keep in mind is that we need some plan—preferably inexpensive and easy to administer—that will assure adequate returns to farmers, maintain a high level of production and consumption (higher than at present for the protective foods), and that will shift production resources from commodities in relative oversupply into commodities in relative undersupply.

Moreover, from the standpoint of adequate nutrition, we need relatively high prices to the producers of some protective foods to stimulate production and relatively low prices to consumers of the same commodities to stimulate consumption.

Several possible answers to this dilemma come to mind. One is an inquiry into marketing practices and charges to see whether the farm

price and the retail price can be brought closer together. Another is the direct subsidization of production, consumption, or both. Another is the revival of distribution programs such as the food stamp plan and the school lunch program.

Commodity Imbalance. Even if we maintain a high level of demand for farm products as a whole during the transition period, we shall need to make some substantial intercommodity adjustments in production. We shall need less emphasis on oil crops, wheat, and cotton, and more on meat, milk, and fresh fruits and vegetables.

The adjustment necessary for food grains will not be so drastic if we can work out a general expansion of world trade and recover a part of our earlier export market—or if wheat farmers are willing to accept a competitive price with feed grains for at least their production in excess of food requirements. In much of the Great Plains, wheat will produce more feed per acre than any other crop, and since 1910-14 technological developments have cut the cost of production relative to the general average for other farm commodities.

Farmers may find it profitable to produce substantially more soybeans and peanuts than they did before the war, as a source of high protein feed, if we maintain a large demand for livestock products through full employment and adequate nutrition. This would ease the adjustment necessary for oilcrops if we resume our prewar volume of imports from the Far East.

The cotton problem will also become easier if the South can increase its output of livestock products and stimulate local demand for them.

The desirable shifts in production will be greatly facilitated if we adopt policies for the transition period that will make it relatively more profitable to use our land, labor, fertilizer, and machinery to produce the commodities of which we have too little, and relatively less profitable to produce the commodities of which we have too much.

The Last Year of the Transition. We come now to a closer look at some of the alternatives from which we must choose (or drift into) the pattern of our economy at the end of the transition period.

For the purpose of the next part of this discussion, we shall arbitrarily assume that 1950 is the last year of the transition period. This is not a forecast—and if it misses the actual end of the transition by two or three years it will not make much difference in the validity of the statements that follow.

Recent studies by the Bureau of Agricultural Economics suggest the situation we might have at varying levels of employment and income in the United States in 1950.

For example, first let us assume that in 1950 we will have full employment at adequate wages and a net national income of around 150

billion dollars at the 1943 general wholesale price level. Under such conditions we could expect buyers, in the market place, to take about 35 per cent more than the 1935-39 average production. Compare that with a total agricultural production in 1944 that was 33 per cent above the prewar level.

If we also assume that production in 1950 is about 35 per cent above prewar, we could then expect farm product prices as a whole to be about at parity, and cash farm receipts to total about 17 billion dollars compared with 20 billion last year. With continued technological improvement, however, we could produce that volume of farm products on 5 to 10 per cent fewer acres and with about 300,000 fewer farm workers than we had last year. This might mean pressure of food supplies on the market with resulting decreases in farm prices, unless support programs are maintained. Of course, improvements that result in lower costs permit farmers to sell at lower prices without sacrifice of income.

Even in such favorable circumstances, we would still need a program to supplement the diets of a number of families incapable of earning enough to pay for adequate nutrition. Such a program would be very important from the standpoint of good nutrition and might help to relieve intermittent oversupplies of some individual commodities. It would be of only minor importance in the total demand for farm products, because under full employment the number of low-income families would be relatively low and any government distribution program to help them presumably would emphasize the foods that are high in nutrients per acre and per man-hour required to produce them, rather than the more expensive foods that individuals prefer to buy when they can afford them.

Even so, we should not forget that a slight increase in the consumption of an individual commodity may give a much more than proportional stimulus to prices and income by removing a temporary oversupply from the market.

If we were to return in 1950 to a situation comparable to that of 1941—about the same wholesale price level and 7 million unemployed—we could expect farm prices to average about 90 per cent of parity, and cash receipts to fall to 12½ billion dollars or about 30 per cent under the level of full employment. There would be a market for only about 25 per cent more than we produced in 1935-39, instead of the 33 per cent more we actually produced in 1944 or the 35 per cent more we could expect under full employment. Moreover, with fewer jobs in town, about the present number of workers probably would remain on the farm to share the smaller income.

If on the other hand we were to have a serious depression in 1950—

say 17 million unemployed and a national income of only 57½ billions —we should expect to see farm prices fall to only a little more than 60 per cent of parity, and cash receipts from marketings to be only 6½ billion dollars. There would be perhaps three-fourths of a million more workers on farms than last year, to share the reduced incomes, and consumers would buy, even at the relatively low prices resulting from such a situation, only 15 per cent more than our farmers produced in 1935-39. In either the second or third situation, the need for some counterpart of the food stamp program, the school lunch program, and other direct means of supplementing diets would be much greater than under full employment. The effect of these programs on farm commodity prices and income would be much greater than their effect in a situation of full employment but much less than the effect of increased employment itself. Thus it is apparent that programs to supplement the diets of low-income families would have a steadying effect on the agricultural economy. If they were geared to expand automatically during depression and contract during prosperity, they would exert a countercyclical influence.

Perhaps it is time to elaborate on one further assumption that has been implicit but unstated in all these hypothetical situations. It is that, come what may, farmers will go on buying more machinery, adopting other technological improvements, and increasing production per acre, per worker, and in total after the war. I believe that will be true, even though there may be some temporary recessions as some farmers ease up from the long hours they have put in during the war, and in years of unfavorable weather. Moreover, I believe it is desirable that we should maintain production at a high level.

We can dispose of such production, in the main, at fair prices and good incomes to the farmer if the government does all it can to maintain full employment—supplemented by direct nutritional aid to low-income families—and to expand world trade. Expansion of world trade, incidentally, is an excellent aid in itself to the maintenance of full employment. In short, food production can be profitably maintained at a very high level if we solve the problems of distribution.

I am going to conclude my remarks with the thought with which I began them. The world and our own people are in flux. They will remain so until the war is over and until demobilization and reconversion are completed. But the pattern into which our economy congeals at the end of that time probably will be very close to the one we shall have to live with for a great many years afterward. That pattern includes the kinds and relative quantities of goods that farmers will produce. It includes the level of our international trade, and of nutrition and employment here in the United States. The problems of agriculture during

the transition period will be manageable if private enterprise and the government, as partners, maintain full employment, adequate nutrition, and expanded world trade—which means both imports and exports. Proper intercommodity price relationships will greatly accelerate the necessary postwar adjustments in agricultural production. What I have said for the United States applies in large measure to other countries of the world; that is, the best solution to their problems lies in an effort to increase employment, production, and consumption.

I realize the subject is so big that my discussion has been sketchy at best. But I hope I have indicated some of the alternative forms the postwar agricultural pattern can take, and some of the problems that must be met during the transition period. If we believe we can and should shape our own agricultural destinies at least in part—and I do believe it—then we should lose no time in attempting to solve those problems.

FOOD AND AGRICULTURE: LONGER-RUN OUTLOOK AND POLICY

By John B. Canning
War Food Administration

The necessity for crowding into a short paper a subject that keeps trying to be a book compels me to leave out a good many relevant general principles,[1] to restrict illustrative material, and to omit consideration of that two-thirds of the world's population that has the worst food economy.[2] So limited, the successive sections will deal with a classification of consumer economies, a diagnosis of the ailments of the food economy in terms both of direct human damage and of institutional backwardness, illustrative models of institutional success in certain service economies, and the extension of the object lessons of those successes to the food economy.

The "longer run" in question began before our grandparents were born, is going on now, and will continue after our grandchildren are dead. In point of space, I shall try to stay on earth but not always on dry land; for the sea will play an increasingly important role in food supply.[3]

I. *Special Economies*

The great bulk of all direct human wants that are administered to by human work break down into two groups of final objective services to the person: in one group, the last, preconsumption stage consists of commodities supplied to the person in his household of which the three main categories are housing (with furnishings and equipment), clothing, and food and drink; in the other group, services (without commodity delivery) occupy the corresponding step and include five main groups—education, travel, entertainment, health protection, and communication.[4] Each of these eight primary supply categories has an

[1] Some of these are partly developed in my earlier publications. These include: "The Division of Agricultural Income Between California Farmers and Their Employees," *Hearings* on S. Res. 266, 74th Congress, Part 50, pp. 18338-18353; "Relation of Budget Balancing to Economic Stabilization," *American Economic Review*, Mar., 1934, pp. 26-37; "Rescue Programs and Managed Agricultural Progress," *Journal of Farm Economics*, Vol. XXIV, pp. 496-511; "Wartime Developments in Food Processing and Preserving," *ibid.*, Vol. XXVI, pp. 144-154; "The Demand for Agricultural Commodities in the Period of Transition from War to Peace," *ibid.*, Vol. XXVI, pp. 709-724. Of these, only the last was written with the present paper in mind.

[2] The general statements herein hold good for populations that are far advanced in modern technology and not subject to totalitarian government. The particular illustrations are largely drawn from the United States.

[3] The entire content of this paper is intended as an expression of my own views only. I am grateful for help from many besides those referred to in footnotes but the responsibility, both what is said and for what is left out, is wholly mine.

[4] In *Capital and Income*, Irving Fisher merges these two groups on the ground (undeniably correct) that it is the services of food, clothing, and housing that are directly wanted. They are kept separate here on the ground that the institutional economies that

economy of its own. In institutional make-up, each of these primary economies differs from country to country and from time to time. There are strong family resemblances among the three commodity economies. There is a different and more strongly marked set of family resemblances among the five service economies. As used in this paper, a primary economy takes into account the person-by-person distribution of its subject matter and the level of living sustainable by all those who do the supply work in question.

Thus broken down, it is possible for an informed public to apply two tests of moral judgment to any one of these special economies at any present time and place: 1. Does it do a reasonably good job for all those who need and want its primary objective service? 2. Are those who do the work of supplying—from extractive origin to final use—enabled by the awards for their work to provide for themselves and for their dependents a decent level of enjoyment in the whole set of their primary material needs?

For a food economy this pair of moral judgments becomes more concrete: 1. Do all people get three square meals a day during decent behavior? 2. Do farmers, fishermen, manufacturers, dealers, caterers, and employees of these get a decent living for themselves and their dependents?

I speak of these tests at any present time as tests for moral judgment because, presumably, people will back up a consensus of moral judgment with action; and because betterment, where betterment is most needed, can spring only from moral judgment and action.

It is possible, in a crude way, to resolve these tests into objective tests[5] as between two countries or, in one country, as between two centuries or as between two economies in the same country. By this crude test one may say that the present food economy of the United States is better than it was a century ago. One can say the same for the economies of shelter, clothing, health service, transportation, and education. One can say that the advances, as among these, differ greatly in character and rates of change. One can duplicate these comparisons in

supply the commodity group are markedly different in all technologically advanced countries from the economies that govern the other group. I shall speak generically of the whole set as special economies, of the two groups as commodity economies and service economies, and of the primary items as a food economy, a clothing economy, an education economy, etc.

[5] The tests must be crude and inconclusive because of the nonadditive character of the variables involved. One can objectively find that the price of milk to dairymen is higher at time A than at time B and that the number of children who are one quart of milk a week short of a good diet is also greater at time A than at time B. But only a wholly arbitrary weight can equate a new-car-one-year-earlier-to-a-dairyman's-family to an equivalent offset to some particular number-of-malnourished-children. Similarly, there is no mathematical function connecting miles of sewer pipe laid and grams of riboflavin added to bread. Only consensus of moral judgment can do this kind of weighing.

any country and as between countries in any combination. One kind of useful comparison has been neglected: we do not ask ourselves whether successes already scored in the new institutional arts in one economy would also work well in another.

Instead of trying to learn even from ourselves, we spend our breath in the United States arguing that some proposal for the food economy is socialistic or communistic.[6] After a short argument of the same form in the health economy, we did unite to stamp out smallpox, hookworm, yellow fever, typhoid, street stenches—and did it in spite of the dreads of socialism and of technological unemployment voiced by a few physicians, privy cleaners, and others who feared to distribute the blessings of modern sanitary arts.

II. *Ailments of the Food Economy*

Commodity Market Diagnosis. In an excellent paper[7] shortly to be published, Schultz has made a diagnosis, on the model of commodity market analysis, of the chronic ailments of agriculture in a developing economy. The paper is limited to countries having populations of the Incipient Declining and Transitional Growth types.[8] His main thesis is that "the entire food and agricultural sectors of the economy in this and other countries [of the two types] are subject to serious strains arising out of the unequal [secular] *rates of growth of the demand and supply of farm products,* with one in process of slowing down and the other being accelerated." The main factors involved are: constant energy value requirements for food, productivity per man per year in agriculture rising more rapidly than population numbers, and higher birth-death differentials in rural than in urban populations. The resulting sagging of unsupported farm prices of farm commodities not only fails to pull resources out of agriculture fast enough, but even works (in periods of a decade or so) in reverse. Supported prices tend, cumulatively, to aggravate the differentials. Foreign trade, however free, would chiefly concentrate the disaster in those countries whose resources are chiefly agricultural.[9]

[6] One hears that in the U.S.S.R. the objections raised are similar—except that "capitalistic" replaces "communistic" in the list of fighting words.

[7] Address before the 15th Institute of the Norman Wait Harris Memorial Foundation in International Relations, Sept. 8, 1944. This address is to be included in *Food in International Relations* to be published for the Foundation in 1945 by the University of Chicago Press.

[8] These two types and a third (High Growth Potential) are named from world population groupings discussed at the same Harris Foundation Institute by Frank W. Notestein and Frank Lorimer. The Notestein and Lorimer papers will also be included in *Food in International Relations.*

[9] Another recent excellent diagnosis is contained in "Postwar Agricultural Policy," a Report of the Committee on Postwar Agricultural policy of the Association of Land-Grant Colleges and Universities, Oct., 1944. See also the Program of the National Farmers Union for 1945 for a diagnosis coupled with detailed proposals for action.

Except that it is not gloomy enough I accept Schultz' diagnosis. Nevertheless, I shall recast it in terms of variables upon which it is possible for a morally roused population to operate. A market that has a prospect of chronic disequilibrium obviously needs stabilizing. But the first question is always: At what volume or rate of change of volume shall market stability be sought? When that is answered the next question is: By what devices can equilibrium at that level be assured? The first is a moral, or human value, question; the second is an institutional question.

Human Value Diagnosis. In terms of human damage, the food economy of technologically advanced populations is everywhere afflicted with twin diseases: one damages food suppliers only; the other damages food eaters.

The identity of the supplier group subject to risk of affliction is largely a matter of nose counting. Work on food, counting both those who work for their own account and those who work for wages, makes up the whole (or nearly the whole) of the gainful occupation of farming, dealing in farm products, fishing, fish dealing, food manufacturing, food dealing and catering.[10] This division of labor by full-time specialization, running through the whole supply sequence, provides a definite element of the population to treat for the disease. The disease itself—not enough income for a decent living—is chronic with millions of families throughout their lives. It is acute and occasional with many more millions. With the recurrence of general depressions, it becomes epidemic and deadly.

The identity of the eater group is a matter of nose counting also; and hence provides a segregation of a population group to treat for the disease. They are the low income groups—both in and out of the afflicted supply group. The disease itself—malnutrition and its milder form of funless eating—is chronic and serious with many millions of families; it is acute and occasional with many more millions; it is epidemic and most deadly in recurrent depressions. Like typhoid fever and other tissue wasting diseases, it is protean in form and in sequel. Children who survive it are stunted and low in vitality, their margins of safety in bone strength are low, and they have low muscular endurance; those afflicted later in life lose in working capacity and in resistance to other diseases; all are subject to adverse differential death rates that cut down the life efficiency ratio—that between average working

[10] Some farmers who grow foodstuffs also grow cotton or wool or fiber flax—and so are members of at least two commodity economies. But the fibers split off from the food economy at the farm sale level; materials for fertilizer, stock feed, and plastics split off at manufacturing. Save for containers, very little is drawn into the stream from springs other than farming and fishing.

life and average dependency life of childhood, invalidity, and senility.

Institutional Diagnosis. The twin diseases noted above spring from a common origin: failure to use productive capacity. Every act whereby mankind seeks to satisfy its material wants has been subject, during the last century to a succession of revolutionary technological changes. The rate of change is accelerating in all of them. All increments of those changes have one consequence in common: We become able to do things we could not do at all before; or, with a given amount of human effort, we can do more than we could do before. What to do with this saved labor is as new as the technological progress itself.

In the days of Smith, Ricardo, and Malthus, when economic theory was taking form, there was no problem of unused capacity. Even with the entire population working to the limit of biological endurance, it was not possible to stay ahead of the wolf. With bad crop years or pestilences, mass famine was a recurrent reality or a chronic specter. Distributive institutions can do little to better a food situation if the total calorie value is not big enough.

In the meantime, much of the released capacity has found other employment. Counting student time and gainful occupation time, our education economy has been the biggest absorber. Larger proportions of the population are gainfully employed in the other four service economies and in the public services external to them. Some elements in the commodity economies have engaged larger proportions of the population in the productive processes.[11] But in many great lines—of which the food economy, from farm and fishing boat to kitchen inclusive, is an example—great per capita reductions and even reductions in absolute numbers have occurred.

It is no longer open to argument that the present capacity of advanced nations can supply all commodities and services in amounts far greater than are requisite to a healthful and comfortable level of living for every person within their borders. At present the ablest half (or more) of the adults of the United States is either bearing arms or making and delivering weapons. The remaining half is maintaining them with food, clothing, housing, transportation, medical supplies, and other normal services. In addition, this weaker half is also delivering, as a net balance of lend-lease aid, huge volumes of food, clothing, and other supplies to Allied peoples. On top of this, this weaker half is also maintaining itself in all the commodity and service economies.

Nevertheless, there was never a time in our most prosperous

[11] This is not so important as is commonly supposed. Laundry work, for example, shows an increased proportion to gainfully employed persons. The work itself has migrated from households. In labor-hours, the total has probably diminished.

peacetime history when so small a proportion of our population was ill-fed or ill-clad or ill-housed or ill-served in the minimum comforts and decencies of education, transportation, communication, entertainment, sanitation, and medical care. To accomplish all this, no one (aside from time of battle) is compelled to undergo such daily grueling work and working conditions as those to which millions of children, invalids, and senile persons were subject in the mills and mines in the early stages of the industrial revolution.

The gravest damage done by this failure to use our productive capacity is done by way of the uneven and irregular impact of it on particular persons and their dependents. Chronically for a whole country, with regional and seasonal and interoccupation variations, we have what is abstractly called "a labor surplus" but is, concretely, an identifiable group of surplus laborers—surplus only in the sense of not being used adequately. Such a situation, though chronic, is unstable. To be sure, we have in peacetimes what we call booms or prosperity. On concrete analysis these turn out to be good only by contrast with times of panic and depression—never by contrast with productive power of the population.

To say in such a situation that there is a secular tendency of the supply of food to outrun demand for it is merely to fix attention on the downward meandering of some relative index number of food prices at which the market tries to clear itself. It diverts attention from the fact that this market supply (with due regard for diet composition) never has been big enough nor shown any tendency to become too big at any time in any population. It diverts attention also from the fact that the *de facto* demand is outrun because of the maldistribution of employment and because of the destruction of bargaining position that results from attempts to get or to keep employment. It also diverts attention from the fact that those who are employed and those who are seeking employment are, at all times, able to produce far more than enough, in goods and services, to pay for good feeding.

When economists seek to buttress their pronouncements on supply and demand with a marginal productivity analysis, it seldom seems to dawn upon them that this analysis does not really discuss throttle opening but only brake pedaling.

This brake pedaling—panicky in depression, but at all times fear induced—has a double impact on the food economy. For those caught in the surplus labor trap the competition works out to "the more horses for hire, the less hay for any of them." Outside of their own diets, this maldistribution of income among others kicks every farmer and fisherman in the face; for, of every decline of a dollar in low incomes, over a third, on the average, comes out of the food budget.

IV. *Working Models*

For future, long-run policy in the food economy every technologically advanced country has successful indigenous models in its own system of economies. The illustrations sketched below refer to the United States.

Education Economy. In total occupied time, counting gainful occupations and student time, our education economy has done far more than any other to absorb the working time saved by technological advances than has any of our other special economies. Compulsory school attendance has become country-wide up to varying ages. Free tuition or heavily subsidized tuition has become universal in the public schools from kindergarten to graduate and professional schools. Free books and supplies and free or subsidized pupil transportation have become common. Free dental, medical, and nursing care and free or subsidized school lunches continued to increase even in depression and wartimes. Free public libraries are now the rule. Private schooling—much of it heavily endowed both as to tuition and as to supplies and student services—has also made great strides in gainful employment and student time. It is to be doubted that, in the absence of compulsory attendance and public schooling, private schooling would have made as great gains as it has. It is certain that the combination of private and public schooling has been far more successful than either could have become if it had had the whole field to itself.

Measured in dollar cost, the education economy ranks high among the special economies, but there is no possible doubt that it pays huge dollar-measured dividends. The minor portion of the total cost devoted to the applied economic arts and to the basic sciences from which they spring, has increased human productivity all out of proportion to the total cost of all schooling—thus leaving all the rest of education as a net profit.

Transportation Economy. Within the last three decades our whole highway transportation system has been revolutionized. The foundation was laid by federal, state, and local laying and maintaining of hard-surface roads and street pavements at public expense variously assessed. On this foundation two giant private industries—the manufacture and maintenance of motor vehicles and the supply of fuel and lubricants—have arisen. The still earlier institution of toll roads (operated as privately-owned public utilities) could never have done the job as well.

As actually done, a hitch-hiker can now get better road transportation than a millionaire could in the first decade or than he could have got yet if the field had not been divided in a manner to promote both its public institutions and its private institutions. In dollar cost, the public

outlay was great and the obvious or proximate benefits were not shared in proportion to contributions. Nevertheless, there can be no possible doubt that the improved productivity of all gainful transportation has more than repaid the total costs—thus leaving all pleasure driving for profit.

Health Service Economy. From physician services to sewer maintenance, the proportion of the population gainfully employed in the sanitary arts and health services is steadily rising despite the labor saving conferred in those arts by rapidly advancing technology. Again, the public investment—capital and operating—has been the main foundation. Sewer systems, garbage disposal, public health service staffs, hospitals, quarantine facilities have become a commonplace even in small communities. In addition to these public services great increases in staffing private medical and nursing professions have gone forward; and each of the two branches helps the other to advance.

The public financing and the private endowment draw funds largely in proportion to ability to pay and in inverse proportion to immediate benefit. The same can be said, as to sense of inequality of contribution and benefit, of many private physicians' practices. The whole system absorbs an increasing proportion of total dollar income, but for every dollar spent a large profit is returned. Dublin and Lotka show the following change in expectation of life in the United States during the last four decades. To their analysis of causes one comment on results

EXPECTATION OF LIFE AT BIRTH AND AT AGE 40 IN THE UNITED STATES*

	Expectation of Life			
	At Birth		*At Age 40*	
Year	*Males*	*Females*	*Males*	*Females*
1900–02	48.23	51.08	27.74	29.17
1942	63.65	68.61	30.27	33.86

* Excerpted from Table 1, "Trends in Longevity," *Annals* (American Academy of Political and Social Science), Vol. 237, p. 124.

may be added: Not only has the ratio of productive working life (say, 18 to 65) to total life very greatly increased for the population but the increased productive age-span has been made subject to smaller morbidity rates per year.

The benefits from the successes in institutional changes in the several service economies are cumulative. To be sure, a modern city levies heavily on those of large fortune to sustain these services and lightly on those in the weaker economic positions. But a well-paved, cleaned, and drained city of healthy, educated people is a far better place to do private business in—taxes and all—than a filthy pesthole occupied by sick people stuck in the mud could possibly be. Each city is the better off for having neighboring cities and intervening rural areas similarly

blessed. They will be still better places to live in and make money in if their entire populations were well fed.

V. *Demand Management*

Little study seems to have been made of the direct and indirect repercussions on relative demand (for different categories of commodities and services) brought about by institutional innovations of the type discussed in the previous section of this paper. Clearly a common working principle of management of demand is involved whether so intended or not. For want of an established terminology I shall speak of "demand management" and "managed demand."

In the proposals of policy made below, it is taken for granted that major changes in policy in the food economy will occur and that they will take the form of measures for managing demand for food. In the course of the most violent war in history several hundred million people have learned in the hard way how greatly our producing power exceeds our peacetime use of it and how little we have done to manage, for sensible human ends, the progress we brag about. These people will not forget the easy way.

Two operational types of policy, both requiring institutional changes, are necessary. The simplest and most powerful of these operates directly on the distribution of money incomes available for spending. This type relies on appetite and taste, by market selection, to alter the composition of demand. The other type supplements the first by direct operation on the commodity or service in question.

Management by Altered Income Distribution. Dollar for dollar involved, the quickest and most powerful operator at the disposal of a legislature concerned with bettering a food economy is the taxing power. An enormous proportion of the total draft upon low incomes takes the form of direct regressive taxes and of taxes the burden of which is shifted, via prices, to housewives' budgets. There is no real fiscal need for any such tax, federal or state.[12] For every dollar of tax burden shifted from low incomes to high incomes and to estates of wealthy decedents about thirty-five cents more will be spent on food. This food in turn can be priced free of absorbed business taxes and excise taxes. The resulting alteration of diet can be seen in any household budget study.

Unavoidable interruptions in gainful employment, loss of productivity in old age and permanent disability, episodic and imperative extra demands on money income such as those resulting from illness and untimely deaths are all amenable to change for the better through designing a general system of social security with primary regard to

[12] See note 1, item 2, *supra*.

the economic disasters to be prevented rather than with regard to "responsibilities."

Those who talk bravely about "sixty million jobs" and "an early return to the forty-hour week" would do well to consider cutting the hour limit to a size that will permit the requisite number of jobs and of fixing minimum wage rates and annual earning at a level that will eliminate the maldistribution of income resulting from the "more hosses, less hay" competition of an overcrowded labor market. The producing power demonstrated in this war and the productivity potential to be released when new facilities for so-called "nonessential occupations" are no less than appalling. It is much to be doubted—however greatly we can usefully expand the "tertiary" occupations[13]—that there can ever be used for a peacetime work week longer than thirty hours if all employable persons seeking employment are to be employed. In advanced populations minimum wage and maximum hour legislation need revision in the light of attainable employment goals.

Commodity Demand Management. Although the foregoing type of demand management is the more powerful and general it will not suffice for effecting a good diet composition or for the appropriate use of agricultural and fishing resources. Budgetary studies all show that really sound average diets are not closely approached in income groups until a higher level of income is reached than is reasonable to expect as a minimum level. The items that continue to be short include animal proteins, essential salts and vitamins, and fats and oils. Within these nutritional categories the particular commodities that have broad consumer acceptability and are also the most efficient known suppliers of these nutrients are high cost items per calorie. Not until the consumer cost of these can be brought down can we hope to see them eaten in proportions that will make the total diet nutritionally efficient. To bring about such a result it is operationally possible, in many cases easy, to move toward a simple goal—to make sound diet compositions nearly as cheap as those that are unsound by reason of deficits in these nutrients. A few illustrations are noted below.

Oranges. Year in and year out, oranges can be marketed at retail in the growing areas at prices that do in fact induce the eating by very low income groups of far more oranges per capita per year than are eaten by much higher income groups in distant regions. A public underwriting of freight costs that would permit nearly uniform retail sale prices would probably double the total offtake. The regions suited to growth (in two corners of the country) can readily double the produc-

[13] Allan G. B. Fisher's ***The Clash of Progress and Security*** is the best integrated development of the case for "tertiary" industries (industries and occupations other than in manufacture and extraction) known to me.

tion. In years of excess crops a bonus paid when a car starts rolling could assure a useful and agreeable use for such crops. It makes as good sense to subsidize movement of oranges to children as it makes to haul ill-fed children to and from school in free buses. Seasonally and regionally, the same evening and lowering of transportation and storage charges would not only move fruit and vegetable growing to the good growing areas but also assure adequate diet components of them.

Pork Meats. Modern hog breeds, fed by modern standards in good hog growing areas, are the most efficient converters into "chewing meat"[14] of feed grains, concentrates and soft forages and silages that are high in vegetable proteins. Bonuses to farmers for delivery of finished hogs to federally inspected packing plants plus freight differentials can make a really adequate supply of pork meats available to all at costs per pound (retail plus subsidy) far lower than we have ever done for an inadequate supply—and do it with an assured adequate return to hog growers and all intermediate handlers. (One of the high, long-run costs of hogs consists of the unused capacity of farms in bad market years.) An "ever normal granary" for corn sealed in cribs under non-recourse loans is a sound insurance against drought disaster or excessively high yields. But, beyond that modest level, the best "ever normal granary" for corn is ever normal child growth and population health sustained by an ever normal serving of sizzling roasts, chops, ham and bacon.

Seafoods. All coast dwelling peoples have been hearty seafood eaters whether they could get the meat of land animals or not. Modern technology—from resource preservation and catching to marketing palatable end products at inland points—is making great forward strides. The sea will remain the habitat of more food animals than the land surfaces can support. From a nutritional point of view, the seafoods—especially for the mineral salts, for both water soluble and fat soluble vitamins, and for some proteins—are excellent diet correctors. The bearing of transportation differentials publicly coupled with bonuses to packers who turn out a popular year round all-climate product for inland use should not be difficult to work out.

Dairy Products. Modern dairy breeds fed by modern standards in climates suited to dairy cow physiology are the most efficient of all land animals as converters of forage plants into diet needed ingredients. They rank high as converters of grains and other vegetable concentrates. Milk products are rich in the ingredients in which nearly all deficient diets are poor. The versatility of milk and its products as ingredients of recipes is already amazingly great and shows no signs

[14] This term has spread round the world wherever American soldiers and sailors and marines have been reduced to eating field rations for long periods.

of approaching a limiting value. Dollar-wise, milk has become the top farm sales crop. Modern technology permits good dairy country to be used however distant from urban centers. The yield per cow per year in good areas is as much as fourfold that near urban areas in the poorest dairy country. There are innumerable ways to better the position of both dairymen and users. Only one will be noted here.

White bread bulks high in nearly all low-income diets. Made with water dough—even with enriched flour—it is still a staff of life chiefly to the nutritional cripples who should no longer need a staff. Milk dough bread—using skim milk powder in the ratio of 8 or 10 to 100 with flour—is not only a far better food but costs little or no more per pound loaf delivered than water dough bread does. Spread with plenty of butter or enriched margarin, nearly the whole range of diet deficiencies—animal proteins of the best kind, minerals, vitamins, and palatable fats—is improved. Bonuses paid at creameries that dry their milk, bonuses paid at country shipping point for fluid milk delivered for city drinking could readily fortify all bread, spread it with butter at near margarine cost, and lay down drinking milk at come-and-get-it milk depots in cities at, say, five cents a quart. One generation so bettered in their milk diet would live enough longer, be enough healthier, and do enough more work for their employers to enable all concerned to pay many times the added total cost of the milk product supply.

In a word, these commodity programs are Stamp Plans without stamps to identify persons pauperized by the ill-management of progress.

DISCUSSION

P. LAMARTINE YATES: Dr. Elliott has given a forecast, including three possible situations, of the quantitative production and income problems which may confront American farmers at the end of "the transition." He has stressed the need for plenteous purchasing power and for a healthy export trade. Dr. Canning has made some provocative suggestions for stimulating the take-up of food on the home market. May the present contributor allude briefly to a few of the international problems?

During the interwar years world agricultural exports were far smaller than they might have been, partly because of trade barriers (fear of war or unemployment) but more fundamentally because of inadequate consumer purchasing power. United States farmers are interested in expanding their trade and therefore in increasing purchasing power. What is wanted in European and other potential importing countries is an atmosphere favorable to economic development as a stimulus to governments (such as it may be hoped the new international Food and Agriculture Organization will provide) to develop positive international policies. Most of those people have far less adequate diets than United States citizens, and a very large increase in consumption could result, part of it derived from imports.

A second problem concerns reorientation of production. It is often said that Western European countries should withdraw protection and price supports from such commodities as wheat and sugar beet and so increase the market for food imports. That is a negative approach. The positive alternative would be to establish such a high level of employment in industry that surplus farm workers would readily find other jobs, with such a consequent keen demand and good price for other foods, e.g., milk, that production of wheat and beet sugar would automatically diminish. Not the least important effect of this alternative development would be such a degree of political security that governments would not feel obliged to retain these crops as an insurance. Further, they would wish to be assured that foodstuffs which they imported would not, through export subsidies, be dumped on them at prices below cost of production.

Progress in these directions will increase world trade in agricultural products. But that does not determine what share the United States will have. At present prices—and probably at 90 per cent of parity, too—the United States could not keep up exports of wheat, cotton, and certain other products without substantial export subsidies. From a national point of view such subsidies are really only justifiable as a stopgap while agriculture adjusts itself; from an international point of view they cause ill-feeling, competitive subsidization, and ultimately economic warfare. On a basis of comparative costs between herself and her competitors in export markets the United States should probably come to export not a larger but a substantially smaller volume of agricultural produce than prewar. If that is a correct guess, then the United States too will face considerable reorientation problems—not merely the well-known one of cotton, but possibly others. Experience shows that reorientation in export crops cannot easily be sought on a unilateral basis:

competitors steal an advantage. International agreements for commodities would facilitate those adjustments, just as they could smooth out price fluctuations and obviate accumulation of stocks. (A full discussion of the pros and cons of various methods of commodity regulation would extend beyond the limits of this paper.) Probably the most significant reorientation problem for United States farming is to transfer resources and manpower from agriculture to industry which in turn depends on the level of employment which industry can maintain. It would seem to me wise to aim to have in 1950 an agriculture not appreciably larger than prosperous home market needs, rather than build hopes on exports.

But finally the possibility must be faced that readjustments may not be successfully accomplished. There may be unbalance between one agricultural product and others leading to a particular surplus or between agriculture and industry leading to a general food surplus—at least for a time. In that case the question would again rise: "Better to marry or to burn?"—better to marry agriculture to health and take the surpluses to the needy or better to destroy stocks? Can the stamp plan be developed internationally? Can the technique of export subsidies, so aggressive when used unilaterally, become a real benefit to humanity if employed by nations acting jointly by agreement? In short, the proposal could be to finance the transfer of these surpluses to countries, for instance in South East Asia, which could never afford to buy them. This is sometimes called "playing Santa Claus" and so it would be if it became a permanent instrument of American policy. The real solution for America is reorientation. The question is whether, to the extent that and for such periods as reorientation does not work, it would be justifiable to do good to others, even at the risk of being dubbed a philanthropist. The alternative is to subsidize producers to refrain from producing!

AGRICULTURAL PRICE SUPPORTS AND THEIR CONSEQUENCES

WORK OF THE COMMITTEE ON AGRICULTURAL PRICE SUPPORTS AND THEIR CONSEQUENCES

By E. J. Working
University of Illinois

The problem of agricultural price supports has become of great interest in recent years, especially since the beginning of World War II. One of the reasons has been fear that, following the present World War, there may be a decline of prices of agricultural products similar to that which took place in 1920 or in the years 1929 to 1932. Farmers and farm organizations are naturally interested in preventing such an occurrence and, partly at their insistence, commitments have been made by the Congress to support prices of many agricultural products for a period of from two to three years after the end of the war. For the most part these commitments call for prices to be supported at about 90 per cent of parity.

Commitments have been made to support prices, but how can they be fulfilled? There is danger that during the latter part of the support period, beginning perhaps about two years after the end of the war, it may prove difficult to maintain prices at the support levels. Even if a price can be maintained at such levels, there remains the very important question of what effect measures used to support prices will have upon agriculture. Will it be necessary to institute strict production and marketing controls? Will the price supports result in the accumulation of large stocks of agricultural commodities which will hang over the market after the end of the price support period and which will then drive prices to lower levels that would have prevailed in the absence of the prior existence of price supports?

Finally, there is concern over the broader implications of agricultural price supports. Where do price supports fit into the general scheme of economic controls after the war? What problems will they involve politically in view of the important voting power of farmers and the well-known tendency for pressure groups to ask for more and more legislation favorable to their interests? The whole problem of the political implications of agricultural price supports may perhaps best be summed up by the question, "Is a general system of agricultural price supports compatible with political democracy?"

During 1944 Dr. Davis, who was then president of the American Economic Association, appointed a committee to study and report on the subject, "Agricultural Price Supports and Their Consequences."

The committee is: H. B. Arthur, Swift and Company; G. S. Shepherd, Iowa State College; Warren C. Waite, University of Minnesota; Orris V. Wells, Bureau of Agricultural Economics; E. J. Working, University of Illinois, chairman. The committee met and has prepared a preliminary draft of a report which is now in the process of discussion by the committee members and will shortly be sent to members of the consulting panel. The membership of the consulting panel is as follows:

Economists with special interests in agriculture—J. D. Black, Harvard University; Karl Brandt, Stanford University; A. C. Bunce, Board of Governors of Federal Reserve System; A. B. Cox, University of Texas; M. J. B. Ezekiel, Bureau of Agricultural Economics; R. B. Heflebower, Washington State College (and OPA); Asher Hobson, University of Wisconsin; F. F. Hill, Cornell University; E. G. Nourse, Brookings Institution; T. W. Schultz, University of Chicago (and C.E.D.); O. C. Stine, Bureau of Agricultural Economics; H. C. Taylor, Farm Foundation, Chicago; H. R. Wellman, University of California.

Other economists—N. S. Buchanan, University of California; F. D. Graham, Princeton University; C. O. Hardy, Federal Reserve Bank of Kansas City; E. S. Mason, Harvard University (and U.S. State Department); F. C. Mills, Columbia University (and N.B.E.R.); F. E. Richter, General Foods, Inc., New York City; Jacob Viner, University of Chicago; George B. Roberts, National City Bank of New York.

Political scientists—William Anderson, University of Minnesota; John M. Gaus, University of Wisconsin; Charles B. Hagan, University of Illinois; Elmer Staats, Bureau of the Budget; John M. Thurston, Department of Agriculture.

The committee has found comparatively little difficulty in reaching an agreement concerning the major effects of agricultural price supports which have been carried on in the past. By and large the various members of the committee find themselves in agreement with regard to difficulties which may be met in supporting prices of agricultural products during the so-called "Steagall period"—the period of two to three years following the close of the war.

There is also a general agreement of the committee members that present methods of determining support price levels are highly unsatisfactory. Parity, as it is now defined, is looked upon as a poor yardstick of the levels at which farm product prices should be supported.

With regard to the problem of the desirability of a general system of postwar agricultural price supports, there is more disagreement. Some of the committee members are of the opinion that direct agricultural price supports should be mostly confined to the field of stabilization operations. It is pointed out that widespread economic distress among farmers is always the accompaniment and result of a low level of

industrial output and of unemployment outside agriculture. The problem of preventing drastic price declines of agricultural products should, according to these economists, be cured at its source by maintaining a high level of industrial production and employment. Prices of agricultural products, it is said, can scarcely be maintained at levels satisfactory to farmers during a period of severe depression and unemployment. Furthermore, if they were maintained at levels satisfactory to farmers in such a period, these prices would be highly unsatisfactory to the rest of the economy, particularly to those who were unemployed.

On the other hand it is pointed out that farmers cannot depend upon other sectors of the economy to maintain a high level of industrial output and, hence, a high level of demand for agricultural products. Because of this there is need for agricultural interests to insist that the federal government provide direct price supports to protect farmers from the disastrous effects of malfunctioning of the remainder of the economy. It is said further that for several decades the drift has been toward more and more governmental supervision over economic affairs and that economists may better bend their efforts toward improving the inevitable controls rather than waste their energies in a vain effort to stay them.

Perhaps the most controversial and uncertain issue of all is whether the development of a system of agricultural price supports must prove a step toward the disintegration of our political democracy. This thesis, of course, would fit in with the ideas of Hayek and others who hold that a widespread system of "economic planning" by the government must lead to a totalitarian form of government. This is an issue which the committee cannot expect to settle. But the committee can point out some of the problems which agricultural price supports pose in the fields of both internal and international trade relationships, and how these problems relate to domestic and international politics.

THE FUNCTION OF GOVERNMENT IN POSTWAR AMERICAN ECONOMY

A Report on an Experiment by an *Ad Hoc* Consensus Committee

By James Washington Bell
Northwestern University

I. *Introduction*

Members of the Association may be familiar with the proposal made by F .D. Graham at the Annual Business Meeting at Washington, January 6, 1943, when it was voted that a committee be constituted "to consider the possibilities of focusing and making the informed opinion of our membership more effective in matters of political importance."[1]

The committee appointed, consisting of F. D. Graham, H. D. Gideonse, and C. R. Noyes, submitted a report at the business meeting of January 22, 1944.[2] The report was referred to the Executive Committee for further consideration. A subsequent report, presented orally to the Executive Committee at its spring meeting on April 7, 1944, still seemed insufficiently matured and was referred to a subcommittee composed of C. O. Hardy, W. L. Crum, L. L. Watkins, J. W. Bell, and J. S. Davis.[3] One suggestion, however, was favorably received and acted upon; viz., that one or more experiments in such procedure be made in preparation for the next annual meeting. It was in line with this suggestion that President J. S. Davis launched two *ad hoc* committees whose reports could be discussed at the sessions of the next annual meeting. One of these committees (E. J. Working, Chairman) was asked to draft a consensus report on "Agricultural Price Supports and Their Consequences" and the other (the present one) to experiment with the consensus idea on the topic, "The Function of Government in the Postwar American Economy."

The "Function of Government in American Postwar Economy" is a subject of perennial interest, has been extensively discussed at the last two annual meetings, and is the subject of a considerable literature. It was thought appropriate, therefore, to explore the possibility of seeking a substantial approach to a consensus on this subject, coupled, naturally, with indications of the "range of informed opinion" outside the "realm of full agreement."

[1] Professor Graham's idea was that the Association should assume responsibility for organizing recognized corps of experts capable of formulating the collective judgment of students of social, economic, and political problems whose reports would represent professional judgment with regard to public policy on these matters.

[2] See *Proceedings* Mar., 1944, pp. 402, 424-425.

[3] See Report and C. O. Hardy's memorandum in this volume of *Proceedings*.

The Committee on the Function of Government was constituted as follows: C. D. Edwards, F. H. Knight, S. E. Leland, L. S. Lyon, H. C. Simons, J. W. Bell, Chairman. It will be noted that members were selected from a local area. This was purposely done to facilitate communication and to permit discussion meetings.

Since it was our purpose to plan and carry out a *modus operandi* appropriate for the purpose, a brief description of our operations and experiences should be made for the record.

Our first idea was to draft a report on "The Function of Government in the Postwar American Economy" which would express our collective judgment and opinions; then submit this draft to a larger panel of economists representing different schools of thought, traditional spheres of government control, and particular vested interests. After receiving revisions, qualifications, and other comments from a panel of 20 to 25 consulting economists it would become the task of the "inner committee" to crystallize and integrate these into a general statement of consensus and lack of consensus. It was thought that portions of the report should bring out the range of opinion on well-formulated subissues with some indication of the prevalence of the divergent views within this range. However, the above procedure, which has, at least in its initial stages, been followed by the Committee on Agricultural Support Prices (and was followed in the case of the contemporary S. E. Harris Committee on the Bretton Woods Program), soon lost favor with our Committee. In the first place, the subject submitted was considered too vague and broad to elicit answers of sufficiently specific character to determine areas of agreement or disagreement among the economists consulted. Hence it was thought that this subject did not serve as a satisfactory test of the consensus idea. The experience last year with the symposium by past presidents on a very similar question bears out this belief. The question, "What should be the relative spheres of private business and government in our postwar American economy," was submitted to all living past presidents (22) of our Association. Replies from 14 participants demonstrated the contention that although the answers fit loosely into a general pattern (there was a general sameness of expressions used and in topics treated), they were not of such character as to permit analysis and classification into areas of agreement and disagreement.[4]

[4] Of the 14 participants, 9 expressed themselves quite definitely against the trend of increased government action or control of our economic life (Fetter, Carver, Fisher, Kemmerer, Bogart, Gay, Mills, Slichter, and Nourse). Four (Willcox, Mitchell, Clark, and Sprague) either took the position that no principles can now be formulated about relative spheres or they set up criteria or objectives without committing themselves for or against government or private enterprise. One (Commons) took a compromise or middle ground favoring private enterprise while at the same time advocating strong government controls. All except J. M. Clark could reasonably be classed on the conservative side, as could

It was decided therefore, to take a different tack. We agreed to submit the general question with the request that it be answered in a brief, succinct statement of 250 to 300 words—this would give writers latitude to present characteristic individual approaches to the relative scope of government in our economy with respect to their economic and political philosophy; then to supplement this general question with a questionnaire consisting of multiple questions in specific areas cutting across several forms of government activity; e.g., production, regulation, aid, and ownership. We expected that such questions would lead from one extreme to the other, i.e., from functions which all economists probably favor, through those involving controversy and disagreement, to the area of obvious nongovernmental activities where again all would agree. General questions were supplemented by more specific and detailed break-down, focusing attention on specific issues which could be more appropriately answered Yes or No without qualification. This, it was hoped, would make the answers more amenable to classification and thereby enable us to determine more accurately the areas of agreement and disagreement.

At one stage of the Committee's deliberation we considered supplementing the general question with a number of semitechnical ones directed to groups of specialists and we prepared ten or a dozen of these in the fields of labor, foreign trade, public finance, social security, public utilities, etc., omitting the field of agricultural economics since an experiment in this area was being carried on by the Agricultural Price Support Committee. Only one of the special questionnaires was finally sent out; namely, the one on Money. This was done in order to parallel another consensus report experiment carried on by a volunteer group headed by S. E. Harris. It was thought that some comparison of methods and results might be made which would be useful in answering the general question how, if at all, consensus can be achieved.

II. *Description of Questionnaires: Instruction to Panel*

Two separate questionnaires thus form the basis of our present experiment; viz., (1) a general questionnaire on the function of government, in three parts, and (2) a special questionnaire on Money, which,

Clark himself except for his justification of an active policy of government spending and public works and subsidizing private consumption.

The defect of this procedure as a method of obtaining a consensus or lack of consensus (though this was not the objective of the symposium) was the failure of the question to focus attention on any specific issue. In other words, there was no meeting of minds. Though interest was centered on government functions in the postwar period, the *objectives* stated were not agreed upon and a variety of subjects were treated. For the most part, these subjects dealt with functions considered appropriate in government action in a free enterprise economy; i.e., the assumption of the existence and the desirability of individual freedom of choice, the profit motive, private property, and the operation of the conventional price mechanism.

however, includes two of the same questions on the function of government found in the first. These were sent out to limited samples of our membership with a covering letter describing the purpose and conditions of the undertaking. The following quotation is taken from the letter:

> This questionnaire is being sent to (1) a selected list of members classified under Group 10 of our Directory; that is, those who have expressed themselves as specializing in the field of public control; and (2) past officers of the Association, nominating committees, and editorial boards since 1935.[5] It was President J. S. Davis' desire to send out personal invitations to each member asked to participate, but at this late date such procedure is not feasible and the committee is asking you to co-operate.
>
> It should be understood by all concerned that any report made on this experiment is not to be construed in any way as an official statement of the A.E.A. or of any segment of the Association. It is an experiment carried on for the purpose of testing a method—to find out if a consensus of informed and professional opinion or judgment on economic issues does in fact exist and if feasible ways can be devised within the Association to discover such consensus.
>
> Please give this questionnaire your prompt consideration and return it to me as fully answered as you feel able to do *without special preparation.*

The General Questionnaire. The general questionnaire went through several revisions and finally we, the six members of the "inner committee," agreed that we should try our hand at answering the questions. The results were not satisfactory and another revision was drafted and answered. Even this draft brought forth suggestions for improvement, but since it was already late we decided to send the same questionnaire to the larger panel of 125 economists so that our answers could be compared with theirs. Sixty returns were received in time to make an analysis. Also, some letters were received explaining why the questionnaires were not answered. Additional answers have since been received. Under the circumstances the response may be considered favorable. It was a heavy duty to perform on such short notice. On the other hand, we probably received more answers from the group selected than could have been expected from a miscellaneous group. We capitalized on the loyalty of former officers and others who have demonstrated their willingness to serve the Association and the questions asked might be expected to have a particular appeal to specialists in Group 10 of our membership classification.[6] It is obvious from the answers that many persons spent much time and thought in writing their replies, whereas others checked right through with little thought or comment.

In its final form the general questionnaire consists of three parts:

I. A question designed to identify the individual's general economic philosophy; i.e., (1) extreme individualism, (2) moderate individualism, (3) state interventionism (a mixed economy of increasing state and decreasing private enterprise), and (4) complete state socialism.

[5] A similar covering letter accompanied the questionnaire addressed to monetary economists.

[6] Even this group proved to be too large for our sample, so it was mechanically reduced to those having Ph.D. degrees or to those who had made substantial contributions in the field.

It was expected that these answers would provide criteria with which to evaluate subsequent answers in question II.

II. A dragnet, or spot-check, multiple question of specific items in various areas with subhead qualifications which would permit statistical analysis of results.

III. An essay type of question in the form originally proposed. This was put last in order to avoid initial discouragement which might overcome the reader faced with such an appalling task and to make it easier to write a summary after having covered question II. It was realized that no quantitative results would emerge from the answers to this question, but we expected to learn the individual's own approach and what were considered the most vital issues involved. Scientists generally throw up their hands when asked such a broad and all-comprehensive question, but since it is asked in this way in everyday life, it is not unreasonable to expect an answer from economists.

III. *Results of the Poll on the General Questionnaire*

The results of the 60 answers to the questionnaire on "The Function of Government in the Postwar American Economy" are presented in the table which follows. Answers to question I from the first 60 monetary questionnaires received are also shown on this table. (Yes answers are indicated in regular type, No in italics; in the Comment column, the first figure indicates total number of qualifications, reservations, etc., and the second and third figures the number of modifications, etc., made by persons answering Yes and No, respectively.)

QUESTIONNAIRE ON THE FUNCTION OF GOVERNMENT IN THE POSTWAR AMERICAN ECONOMY

I. IN THE POSTWAR PERIOD SHOULD THE U.S. (AS A MATTER OF LONG-RUN POLICY) BE A NATION

Monetary Questionnaire (60 answers) Yes		Yes	*No*	Comments
20	(1) predominantly private enterprise with relatively little public control	7	*23*	3:2/*1*
43	(2) predominantly free private enterprise with substantial public control	48	*7*	6:4/*1*
4	(3) in which public control is predominant	6	*24*	2:1/*1*
1	(4) in which public ownership and operation predominate	1	*38*	3:1/*2*

II. INDICATE WHICH OF THE FOLLOWING GOVERNMENT ACTIVITIES (FEDERAL, STATE, OR LOCAL) YOU CONSIDER APPROPRIATE OR SUITABLE (YES COLUMN) POSTWAR FUNCTIONS OF GOVERNMENT AND WHICH ONES YOU DO NOT FAVOR (NO COLUMN).

Note: If you are undecided, consider yourself unqualified to answer through lack of knowledge or information, or believe that the question is unanswerable, please so indicate in the column under "Comments."

QUESTIONNAIRE ON THE FUNCTION OF GOVERNMENT IN THE POSTWAR AMERICAN ECONOMY—*Continued*

Function	Yes	No	Comments
			Total: Yes/No
1. Military defense	59	0	
2. Maintenance of law and order	59	0	
3. Adjudication of private disputes	58	0	
4. Attempt to stabilize the general price level	34	2	1:
a. by government fiscal policy focused on changes in			
i. tax revenues	42	9	7:5/0
ii. spendings	41	10	6:3/1
b. by Federal Reserve open market operations and other credit control devices	36	6	7:2/1
c. other	19	4	6:8/1
5. Assume responsibility for control of business cycle fluctuations	45	12	15:12/2
6. Stabilize prices of particular commodities			
a. on a continuing basis	5	39	9:2/3
wheat	4	32	5:2/0
cotton	4	32	5:2/0
other (specify)	3	27	4:2/0
b. over transitional periods	22	18	13:5/1
wheat	16	19	9:3/1
cotton	17	18	9:3/0
other (specify)	5	16	9:2/0
7. Limit corporate profits	17	17	7:1/5
a. by taxes on earnings	34	17	9:4/3
b. by excess profits tax	17	32	8:2/3
c. by ceilings on profits (e.g., 100% tax)	3	42	3:0/3
8. Limit size of large incomes	21	7	3:1/1
a. by progressive taxation	51	3	3:2/0
b. by establishing a maximum ceiling	8	44	2:1/1
9. Limit acquisition of property by inheritance	27	0	0
a. by progressive taxation	55	0	0
b. to absolute maximum amounts	13	38	4:1/1
c. by curtailing rights of bequests to nonrelatives	21	32	8:2/1
10. Prevent sales below cost, e.g., State "Unfair Practices" Acts	4	53	6:1/2
11. Guarantee cost of production (if so, in what industries)	3	50	7:3/1
12. Participate in international agreements to secure stabilized currencies	37	1	5:2/0
a. as proposed in Bretton Woods agreements	37	6	9:1/0
b. by other arrangements (specify)	9	9	15/6/0
c. allow exchange rates to seek own level	10	25	12:5/0
13. Provide financial aid to foreign countries for relief and development through			
a. Government guarantee of loans	23	9	10:5/0
i. private lender to private borrower	18	20	11:6/0
ii. private lender to government borrower	19	22	7:3/1
b. government to government loans	38	7	13:7/0
c. government loans to private borrowers	7	34	7:3/1
d. loans through an international bank, e.g., Bretton Woods agreements	45	4	9:4/0
14. Prevent operation of private monopolies and conspiracies in restraint of trade (except for ones specifically exempted by legislation)	58	2	3:2/1
15. Permit such activities in case of labor	6	48	10:1/8
16. Exempt such activities in American export trade provided that neither the domestic market nor the trade of exporting competitors is affected	15	36	9:2/3
17. Prevent differentials in prices or terms of sale quoted to competing customers except as justified by cost	32	19	9:2/1

QUESTIONNAIRE ON THE FUNCTION OF GOVERNMENT IN THE POSTWAR AMERICAN ECONOMY—*Continued*

Function	Yes	*No*	Comments
			Total: Yes/*No*
18. Permit agreements between producers and distributors			
a. to fix resale prices on identified commodities	14	*42*	7:2/*2*
b. to enforce such agreements against distributors who have not complied	6	*47*	5:0/*3*
19. Prevent unfair methods of competition in business	49	*4*	7:3/*1*
20. Enforce general principles of fair competition			
a. as defined in federal law and adjudication, e.g., Federal Trade Commission	56	*0*	3:2/*0*
b. as defined by trade groups in codes given the force of law by government approval, e.g., NIRA codes, agricultural marketing agreements	7	*49*	4:2/*0*
21. Regulate security trading by			
a. preventing manipulative practices	59	*1*	1:1/*0*
b. requiring disclosure of specified information	56	*1*	3
c. relaxing existing SEC requirements with regard to			
i. small enterprises	22	*24*	9:1/*1*
ii. stock issues (as distinguished from bond issues)	10	*35*	11:2/*0*
22. Require federal incorporation of businesses engaged in interstate and foreign commerce	44	*7*	12:5/*0*
23. Require identification of commodities where feasible	17	*1*	1
a. grade labeling of			
i. medicine	48	*6*	4:1/*1*
ii. foods	51	*3*	3:2/*1*
iii. processed consumers goods generally	48	*5*	3:1/*1*
iv. agricultural products	46	*6*	4:2/*1*
v. industrial materials	36	*11*	11:3/*1*
b. certification as to conformity as to an established standard of			
i. medicines	54	*1*	8:5/*0*
ii. foods	52	*2*	6:5/*0*
iii. consumers goods generally	38	*12*	8:4/*1*
iv. agricultural products	35	*13*	9:4/*2*
v. industrial materials	30	*14*	9:4/*1*
c. disclosure of ingredients and other characteristics			
i. medicines	53	*2*	4:2/*0*
ii. foods	51	*2*	5:3/*0*
iii. consumers goods generally	43	*8*	5:1/*1*
iv. agricultural products	33	*12*	8:4/*1*
v. industrial materials	30	*13*	8:2/*1*
d. make tests and publish results with identification of brands of			
i. medicines	39	*11*	5:1/*1*
ii. foods	38	*9*	4:1/*1*
iii. consumers goods generally	33	*12*	7:3/*1*
iv. agricultural products	25	*18*	6:2/*1*
v. industrial materials	23	*17*	6:1/*1*
24. Conduct technological research of manufacturing industries (comparable to research carried on in agriculture)			
a. fundamental	38	*16*	12:2/*4*
b. developmental	29	*19*	8:3/*1*
25. Grant patents as reward for invention	30	*2*	5:0/*0*
a. with right to restrict licenses with respect to markets, products, and prices	20	*32*	10:2/*2*
b. with right to keep invention out of use during the patent period	3	*48*	10:1/*0*
c. with right to withhold privilege of use from applicants who are willing to accept the terms granted to others	5	*45*	8:1/*1*

QUESTIONNAIRE ON THE FUNCTION OF GOVERNMENT IN THE POSTWAR AMERICAN ECONOMY—*Continued*

Function	Yes	*No*	Comments
			Total:Yes/*No*
26. Grant subsidies to industries of particular importance			
a. Merchant Marine			
i. to offset subsidies given by other nations	24	*21*	9:4/*2*
ii. regardless of policy of other nations—in order to insure some minimum quantity of American shipping	29	*22*	11:7/*2*
b. aviation industry			
i. to offset subsidies given by other nations	26	*20*	5:3/*0*
ii. regardless of policy of other nations—in order to insure some minimum quantity of American aviation	27	*27*	10:7/*2*
c. cotton growing	4	*45*	4:3/*1*
d. silver production	1	*57*	1:0/*1*
27. Develop TVA's in other regions	39	*9*	9:2/*1*
28. Carry on the following existing or proposed projects			
a. post office	57	*1*	*1*
b. Railway Express	27	*31*	2:1/*1*
c. mint	60	*0*	
d. Panama Canal	60	*0*	1
e. Panama railways	56	*1*	3:1/*0*
f. Boulder Dam	54	*1*	2
g. Grand Coulee	54	*1*	1
h. TVA	53	*3*	1
i. Passamaquoddy	19	*26*	9:2/*0*
j. St. Lawrence Waterway	33	*17*	6
k. Florida Ship Canal	21	*27*	7
l. RFC	38	*11*	7
m. FDIC	50	*1*	7:1/*0*
n. Export-Import Bank	40	*9*	5:0/*1*
o. Port of New York Authority	51	*3*	5
29. Reduce tariff barriers by			
a. reciprocal tariff agreements, e.g., Hull's	52	*2*	7:6/*1*
b. multilateral agreements	49	*3*	8:5/*1*
c. unilateral action of the U.S.	42	*11*	12:10/*0*
30. Impose limits on immigration by			
a. continuation of national quotas	35	*20*	7:4/*0*
b. selection on basis of quality and training, e.g., literacy tests	38	*11*	7:3/*1*
c. exclusion of contract labor	30	*14*	4:1/*0*
31. Take action favoring special groups			
a. maintenance of farm parity prices	10	*46*	5:2/*0*
b. food stamp plans	30	*23*	8:3/*1*
c. action to strengthen position of labor groups			
i. compelling employer to engage in collective bargaining	38	*19*	4:3/*0*
ii. designating a union as bargaining agent	38	*16*	4:3/*0*
iii. compelling arbitration of disputes	31	*22*	5:3/*0*
iv. requiring maintenance of membership	14	*39*	7:4/*0*
v. specifying that goods used in government contracts be produced by labor paid prevailing wage rates	23	*30*	4:1/*1*
d. special government aid to small business	28	*22*	16:6/*0*
32. Prevent labor abuses			
a. regulate membership with respect to			
i. entrance requirements	36	*13*	7:1/*0*
ii. rights to membership	44	*10*	3:1/*0*
iii. dues	37	*17*	3:1/*0*
b. require federal incorporation of unions	36	*17*	9:1/*2*
c. require disclosure of union receipts and disbursements	50	*5*	6:2/*1*
d. prevent strikes and boycotts in the conduct of jurisdictional disputes	42	*10*	9:2/*2*

QUESTIONNAIRE ON THE FUNCTION OF GOVERNMENT IN THE POSTWAR AMERICAN ECONOMY—*Continued*

Function	Yes	*No*	Comments
			Total: Yes/*No*
e. prevent unions from restraining commercial competition among business enterprises	56	*2*	3:2/*0*
f. prevent unions from boycotting and obstructing technological change and restricting output	56	*2*	9:6/*0*
33. Fix minimum wages	46	*10*	5:3/*0*
34. Fix maximum hours	43	*14*	4:4/*0*
35. Provide employment for persons willing and able to work who cannot find employment in private industry			
a. at prevailing wages	19	*31*	8:6/*0*
b. at wages less than prevailing	33	*18*	8:4/*2*
36. Provide comprehensive systems of medical care including medicine, advice of physicians, and hospitalization			
a. only for persons financially unable to provide it for themselves	6	*36*	15:5/*1*
b. for all persons desiring to participate on a contributory basis	40	*13*	5:1/*1*
c. a free minimum for all	32	*16*	7:3/*4*
37. Extend social security to			
a. domestic servants	50	*6*	9:2/*1*
b. farmers	40	*11*	12:5/*1*
c. government employees	53	*2*	4:4/*1*
d. professional classes	33	*22*	10:3/*3*
e. high income groups	25	*29*	7:2/*3*
f. self-employed persons	32	*22*	11:6/*2*
38. Provide social security, i.e., old age, health, and unemployment insurance			
a. on a compulsory contributory basis to which contributions are made by			
i. employer	11	*14*	1:0/*1*
ii. employee	15	*13*	2:1/*1*
iii. both	44	*4*	2:1/*0*
b. on a noncontributory basis, the expenses being borne wholly by taxes	7	*37*	5:1/*2*
39. Provide social security financed			
a. on a cash or pay-as-you-go basis	31	*9*	10:3/*1*
b. by accumulation of reserve fund	20	*24*	8:3/*1*
40. Assuming a national income of 150 billion dollars per annum, what maximum amount would you regard as an appropriate expenditure (i.e., disbursements to beneficiaries) for social security	$1– 5– 10–1 15–1	4=4 9=6 4=2 9=0	20–24=2 30–34=1 35–39=1
41. Require education of citizens on			
a. elementary school level	54	*0*	1
b. secondary school level	40	*14*	3:2/*0*
c. college and university levels	1	*52*	2
42. Provide free tuition at			
a. elementary school level	56	*2*	1
b. secondary school level	56	*2*	5:4/*0*
c. college and university levels	28	*30*	19:10/*5*
43. Contribute to the maintenance of students at			
a. elementary school level	35	*17*	15:12/*2*
b. secondary school level	36	*17*	22:10/*3*
c. college and university levels	29	*20*	25:15/*3*

44. WHAT FORM OF ORGANIZATION AND RELATION TO THE GOVERNMENT WOULD YOU FAVOR FOR EACH OF THE FOLLOWING:

Note: An example will serve to illustrate the meaning of the five-column captions. If you believe that railroads should be a government monopoly owned and managed, check Column I; if you believe that government should own and operate some railroads in competition with private railroad companies (yardstick for experimental plants would be included here) check Column II; if government policy should favor the consolidation of railroads under government regulation, check Column III a.; and if you believe that private companies should remain competing under government regulation, check Column III b.; antitrust laws and administration fully applied to railroads would call for a check in Column IV.; unrestricted private enterprise without either regulation or enforcement of competition is indicated under Column V.

	I	II	III		IV	V
Industry	Govt. monopoly	Govt. competition with private enterprise	Govt. Regulation a. Of private monopoly	Govt. Regulation b. Of competing units	Govt. enforcement of competition between private enterprises	Laissez faire
1. Railroads	15	4	17	23	9	
2. Truck transportation		1	4	38	14	1
3. Telephone and telegraph	17	10	32	6	3	
4. Radio communications	15	7	14	20	5	
5. Radio broadcasting	9	8	6	35	6	
6. Electric light and power	12	18	25	16	4	
7. Air transport	3	2	10	39	8	1
8. Television	9	4	6	32	7	1
9. International news agencies	1	1	4	22	20	6
10. Inland Waterways Corporation	10	12	5	12	2	3
11. Anthracite coal mines	8	1	7	15	22	4
12. Forest lands	17	11	3	18	6	1
13. Federal Reserve Banks	28	3	11	4	1	1
14. War plants financed by federal government during the present war insofar as not scrapped	5	13	4	6	22	7

45. Assuming an average national income of 150 billion dollars annually what in your judgment should be the approximate total sum (or percentage) expended on federal, state, and local governmental activities?

$15–19 = 1
20–24 = 7 } 1
25–29 = 5 }
30–34 = 17 } 1 } 1 } 2
35–39 = 2 }
40–44 = 1 } 1–
45–49 }
50–54 = 1
75 = 1

III. Given 250–300 words, how would you answer the general question "WHAT SHOULD BE THE FUNCTION OF GOVERNMENT IN THE POSTWAR AMERICAN ECONOMY?"

Analysis of Results

Question I. IN THE POSTWAR PERIOD SHOULD THE UNITED STATES BE A NATION, ETC.

In an earlier draft this question was framed so as to elicit answers based on changes from the *status quo ante* and was phrased as follows:

Relative to prewar economic, political and social conditions, in which direction should the United States move: (1) toward diminished scope of public control of business, (2) toward substantially unchanged relations of government to business, (3) toward extension of public control, (4) toward complete state control?

Give us your judgment, not on the basis of wartime conditions, but on postwar peacetime conditions.

Answers to these questions by members of the "inner committee" did not prove satisfactory because of the differences in interpretation of prewar conditions; also, some answered on the basis of their expectations rather than preferences. Hence the present revision was adopted.

Question I, as it stands, was answered without much comment. A few took exception to the terms "private enterprise," "free," "control," "little," and "substantial." The question could have been revised so as to call for checking one item only; e.g., Which do you favor, 1, 2, 3, or 4? Otherwise, the form seems satisfactory.

A substantial majority, 48 of 62 (two answered Yes to two questions) favored 2; i.e., predominantly free private enterprise with substantial public control. This may be interpreted to mean that about 77 per cent of this group do not favor much change from the *status quo ante*. The percentage of the 60 monetary questionnaires analyzed shows a substantially smaller proportion favoring 2; viz., 43/69 (some checked more than one item) or 63 per cent. If any leaning toward change is indicated, the weight of opinion is clearly in favor of less government activity rather than more, especially among monetary economists, 20 of whom favor little public control compared to 5 who want more. This appraisal is substantiated by the general tenor of the answers to the essay question (III in the General Questionnaire).

IV. *Tabular Analysis of Answers to Question II*

Question II. THE SPOT-CHECK QUESTION

As a first step in the analysis the answers of the six members of the *inner committee* were recorded on work sheets and classified. This pilot test was a comparatively simple matter since numbers were few and the *rapporteur* was familiar with the views expressed in the discussion sessions held while the questionnaire was being formulated. Furthermore, the members answered only those questions upon which their convictions were clear or answered with appropriate reservations. Of the 139 answers tallied, 100 were definitely within the area of agree-

ment and 39 fell within the area of doubt or disagreement. Agreement was defined as 6, 5, 4, or 3 Yes answers to 0 No answers (of which there were 58) and 5, 4, or 3 Yes to 1 No answer (of which there were 13) or a sum total of 71 predominately Yes answers. Agreement on the negative side was determined in the same sense; namely, 6, 5, 4, or 3 No answers to 0 Yes answers (20), and 5, 4, 3, No answers to 1 Yes (9) or a total of 29. We had, therefore, a total of 100 answers in the area of agreement. Disagreement was interpreted as including all other counts, a total of 39. Thus we have a ratio of about 70 per cent agreement to 30 per cent disagreement.

An effort was made to account for qualifications and reservations indicated in the Comment column, but no measuring device proved feasible. All indications are, however, that even greater agreement might have been shown than the simple Yes or No figures diclose if weight could have been given to the Comments.

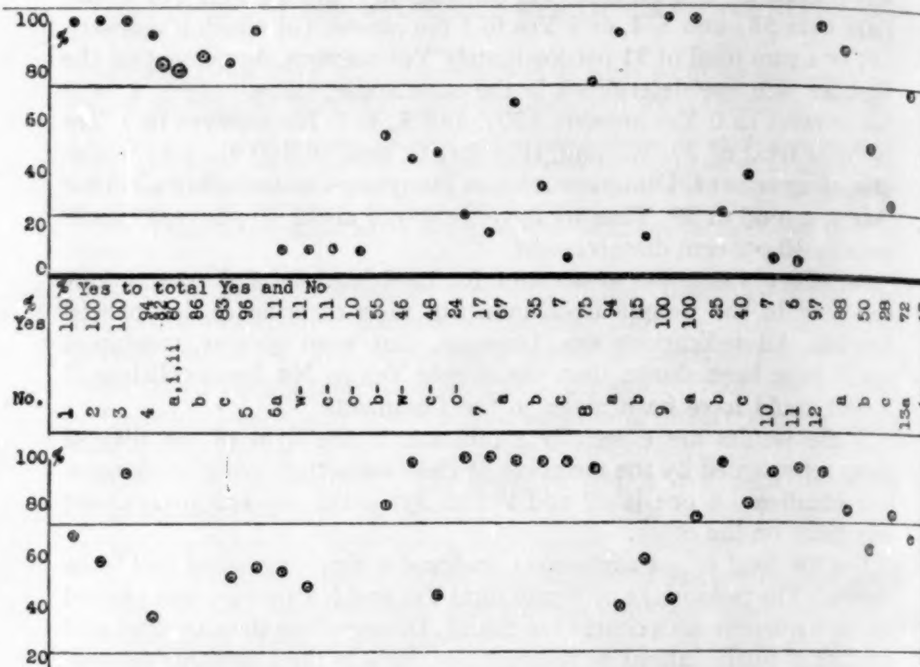
These results are especially significant in the light of the diverse views represented by the members of the Committee; namely, extreme individualism on one hand and liberal sympathy toward government enterprise on the other.

For the total *60 questionnaires* analyzed a simpler method had to be devised. The percentage of Yes to total Yes and No answers was plotted for each question on a chart (see chart). Disregarding the character and number of qualifications or reservations made in the Comment column, a rough approximation of agreement was obtained by counting the answers between 75-100 per cent as predominantly Yes and those between 0-25 per cent as predominantly No. Results indicate 71 Yes and 25 No answers falling within these ranges, a total of 96 agreements out of 154 answers, or slightly over 62 per cent. This proportion is less than that shown for the "inner committee," which was 70 per cent. But in only a few instances did the answers of the two groups differ in opposite sense; i.e., Yes majority in one case and No in the other. Differences were more often in degree than in direction.

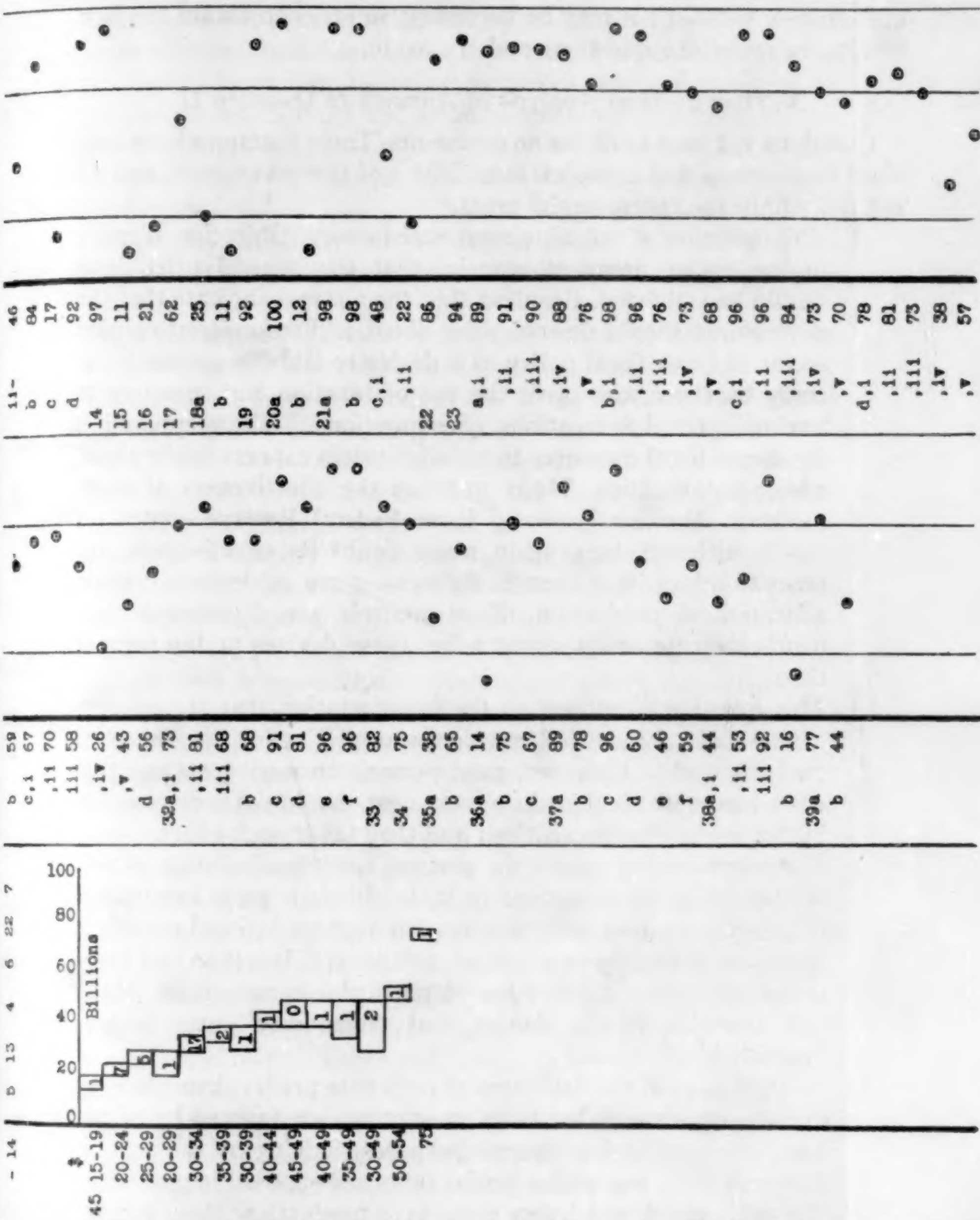
A statistician would probably determine a probable error (of about 6 or 7 per cent) and consider all answers above and below three times this error (18-21 per cent) as falling within the area of agreement. This method applied to our case would improve results considerably, but such procedure would put a greater strain upon the "representativeness" of the sample of questions than the Committee would feel willing to sponsor.[7]

[7] It should be realized that for the most part our answers represent judgments on independent, individual items. These answers might satisfy the behaviorist psychologist, but in real life, i.e., making practical decisions on real issues, answers to these questions are related to other answers, since many factors are interacting factors. Those who believe in the *Gestalt Theorie* would find this method inappropriate.

DISTRIBUTION BY PER CENT OF *YES*



TO TOTAL OF *YES* AND *NO* ANSWERS



Further study may produce a method of taking account of qualifications made to many of the answers other than in the item-by-item discussion below, though it may be necessary, in order to obtain the best results, to revise the questions and try again.

V. *Item-by-Item Analysis of Answers to Question II*

Questions 1, 2, and 3 call for no comments. These functions have long since been considered appropriate activities of the government and do not fall within the controversial areas.

4. This question is not altogether satisfactory. Objection is made to the major premise; namely, that the general price level should be stabilized. Granting this, the answers indicate that the government should do something about it. Predominant opinion seems to favor fiscal policy as a device to stabilize prices, especially by those who favor the use of taxation and spending to level off cyclical fluctuations. (See question 5.) Those opposed to the use of fiscal measures to stabilize prices express doubt about wise administration. Many question the effectiveness of these methods. Answers generally favor Federal Reserve control of credit, although here again many doubt its effectiveness. All seem to admit its influence. References are made to rationing, allocation of production, direct controls, etc. Numerous comments indicate doubt about using these devices at the present time.
5. This question is subject to the interpretation that the government should assume full or sole responsibility for the control of business cycles. However, most persons answering assume that what was meant is that the government should share responsibility for mitigating fluctuations and they favor such effort.
6. A strong majority oppose the government's manipulation of particular prices on a continuing basis although some exceptional circumstances are cited. Stabilization over transitional periods is approved in slightly over half of the answers; less than half favor temporary price stabilization of particular commodities. Many call attention to the danger that "temporary" may become "permanent."
7. The question of the limitation of corporate profits shows an even division of answers, but taxes on earnings are favored by 67 per cent, presumably for revenue purposes, judging by the prevailing comments, and excess profits taxes are opposed in peacetime, due to the check which they exercise on production. Many suggest other means to curb monopoly profits. Only a few favor a ceiling on profits.

8. A majority favor limiting large incomes and limiting by progressive taxation; only a few favor a maximum ceiling. Comments do not make it clear whether large incomes are objected to per se or whether limitation means more public revenue.
9. All replies favor limiting property inheritance and this by progressive taxes, but not by absolute maximum amounts. A majority vote not to curtail rights of bequests to nonrelatives. This question might well be broken down into further segments if used again.
10. Governmental intervention to prevent sales below cost received very little support. Some made exceptions in the case of military supplies, etc.
11. Little support was given to guaranteed cost of production. Some further qualifications might have improved this question.
12. Nearly all favor the purpose of the Bretton Woods agreements but many qualify the means proposed. Many more favor Bretton Woods than any other arrangements, but under Comments the Fund is more often opposed than the Bank, and commercial agreements are more important to some than currency stabilization. (See Monetary Questionnaire.) Few favor a "do nothing" policy. Comments in favor of allowing exchange rates to seek own level referred to long-run conditions.
13. Most of those replying see a need for financial aid to foreigners though there is opposition to government guarantee. A question should have been added on direct versus private government loans. Division is about even but slightly against government guarantee to private lenders. Opinion is favorable to "government to government" loans but unfavorable to "government to private" loans and strong support is given to the Bank in Bretton Woods agreements. (See question 12.)
14–15. Respondents were overwhelmingly against monopolies and restraints as at present defined, and this applies, though less strongly, to labor also, on the ground that labor should be subject to the same rules.
16. There is some support for American cartels in foreign trade, though most respondents see danger. Many question the premise stated in the proviso.
17. A majority favor preventing price discrimination, although many consider the question not clear or too complicated for a Yes-No reply. This question should be redrafted.
18. A majority oppose retail price maintenance[8] and vigorously

[8] Mention of specific legislation, e.g., Robinson-Patman Act, was generally avoided in the last draft of the questionnaire because of the multiple character of most of these laws.

oppose the enforcement suggested. A number are undecided.

19–20. There is heavy opposition to unfair competition "in cases which can be clearly defined as such." The quotes indicate the character of qualification. A number consider the word "unfair" question-begging. All seem to be satisfied with the enforcement of competition as per the Federal Trade Commission but few want to return to NIRA.

21. The SEC appears to be popular. Relaxation of requirements to aid small business is favored by a majority of 48 per cent and to aid equity holders, 22 per cent, but much doubt exists as to what can be done. (Compare 31d.)

22. Federal incorporation of interstate business received surprising support, though many limit their approval; e.g., size. The tally shows 86 per cent Yes answers compared to 68 per cent with regard to unions. (See question 32 b.)

23. Identification of commodities is favored in principle though less than one-third answered this general question. Grade labeling meets with strong favor even for industrial materials; certification is strongly supported for medicines and foods with less strength for other items; the same general distinction is made with regard to disclosure of ingredients and other characteristics; and government tests with publication of results and identification of brands received strongest support for foods, medicines, and consumer goods generally with less support for industrial materials and agricultural products. The Comment column on this question contained many question marks and statements "undecided," "don't know," etc.

24. Government research applied to industry is favored by a majority; support is stronger for fundamental than for developmental research. Here again the implications were not clear to many who answered.

25. Patents are favored as rewards for inventions but exceptions are taken to the freedoms proposed in subheads a, b, and c. Some distinguish the right to restrict licenses with respect to markets and production, which they approve, and with respect to prices, which they oppose. Many refuse to give flat answers.

26. Subsidies are favored both for the merchant marine and aviation industries. The margin is close and many qualify for military and other noneconomic reasons. It is interesting to compare these answers with those to question number 29 where many of those who approve subsidies oppose tariffs. Subsidies to cotton and silver are strongly opposed.

27. A surprising number of Yes answers are given without qualification. Some facetiously indicate that they would oppose extending TVA's *abroad*. Compare the 81 per cent here approving exten-

sion with the answer to question 28 where 95 per cent approve TVA.

28. The following government activities are favored by a large majority: post office, mint, Panama Canal, Panama railways, Boulder Dam, Grand Coulee, TVA, FDIC, and Port of New York Authority. Favored by a smaller majority are St. Lawrence Waterway, RFC, and Export-Import Bank. Only Railway Express, Passamaquoddy, Florida Ship Canal are opposed. (These plus St. Lawrence Waterway and RFC are opposed by the inner Committee of Six.) Answers from Group 10 of the A.E.A. personnel classification separately processed showed strong support for government operation of these projects, while those of this group in government employment favored all projects without reservation or exception.
29. Tariff reduction is desired by a large majority by whatever method possible, though reciprocal and multilateral agreement polled heavily and unilateral action provoked numerous comments and qualifications.
30. There seems to be a fair degree of satisfaction with present immigration restriction policies. Some consider selection on the basis of quality (and training) an improvement, and exclusion of contract labor receives majority support. Limitation of immigration has the support of many who favor free trade in question 29.
31. Farm parity prices is disapproved by a large majority; but food stamp plans (to handle surpluses and to meet emergencies) find a small majority support.

The inclusion of labor questions among those favoring special groups provoked strong opposition on the part of labor sympathizers, but a majority supports government intervention in labor relations in compelling employers to engage in collective bargaining, designating a union as bargaining agent, as well as compelling arbitration of disputes (some wish to confine this to large units). Only with regard to maintenance of membership and action specifying wage rates in government contracts is the negative answer larger than the affirmative; and in the latter case the issue is a close one and qualified by the warning of the danger of "politics." Majority support of government aid to small business is not large and many confine special aid to information and advice. (Compare question 21c i.)

32. Answers generally favor the prevention of labor abuses (called a "question-begging" phrase by some); regulating right to union membership receives stronger support than regulating entrance requirements or dues.

Federal incorporation of unions receives surprisingly strong

support though the vote is not as large as that for the federal incorporation of business. (See 22.) Disclosure of union finances and the prevention of strikes and boycotts and restraint of competition and restricting output are all strongly favored.

33–34. A majority favors fixing minimum wages; a smaller majority, with more reservations, favors maximum hours.

35. Sentiment seems to favor the government's responsibility for providing full employment, but at less than prevailing wages. How much less might have been specified, e.g., minimum wages referred to in question 33, or less than union scales, etc.

36. Medical care for persons financially able (should have read "unable") to provide it for themselves is opposed. Medical care on a contributory basis polled a fair majority and a free minimum for all received considerable support.

37. The count indicates general agreement that the social security base should be broadened except for high income groups; support is less strong for farmers, professional classes, and self-employed (78, 60, and 59 percent Yes answers, respectively). Suggestions are made to extend coverage but narrow kinds of security, to defederalize administration, etc. This question needs further refinement; e.g., unemployment is not applicable to farm, professional, and self-employed classes.

38–39. Social security on a compulsory basis is favored with both employer and employee contributing and also with employee contributing; a bare majority opposing the compulsory basis with the employer alone contributing. A wholly tax-supported program is opposed. The cash, or pay-as-you-go, basis of financing appears more acceptable than the reserve fund method. Some would apply the former to old age and health, and the latter to unemployment.

40. The maximum expenditure on social security ranges from 1 to 29 billion dollars with a majority indicating a range from 5 to 9 billion and the median around 9 billion. Many qualifications and explanations are given by the few who answered this question. Some point out that government outlays are in part a substitute for private expenditures and hence do not represent a net financial burden. It is obvious that social security costs deserve more study.

41, 42, 43. Compulsory education is favored on the elementary school level, less so on the secondary school level, and hardly at all on the college or university level. Free tuition is favored for elementary school and secondary school levels and surprising support is found for tuitions (for superior students) on the higher level. Contribution to the maintenance of students seems to be

desired on all levels, maintenance being broadly interpreted in the comments as including significant and insignificant items.

44. Over-all answers to this question may be summarized as follows:

1) Competition under government regulation of railroads shows a poll of 23 answers. Next in favor is private monopoly under regulation with 17 tallies. Government monopoly shows strong minority support; viz., 15. Adding the figures in the appropriate columns shows: competition 36, monopoly 27; government 19 and private 49.
2) The majority want government regulation of truck transportation. Competition is favored by a ratio of 54 to 4.
3) Monopoly for telephone and telegraph is favored by 49 (17+ 32) and the majority prefer private monopoly under government regulation.
4) A bare majority prefer competition for radio communications (7 + 20 + 5), though monopoly—government and private (15 + 14)— shows strong support.
5) For radio broadcasting, competition under government regulation receives majority support.
6) Many replies check electric light and power under several heads, which indicates the mixed character of this item: 12 + 25 for monopoly and 18 + 16 + 4 for competition; private enterprise is favored over government enterprise 45 to 30.

7–8) The large majority favor competition of air transportation and television under government regulation. There is some support for government monopoly of television.

9) Nearly all respondents consider it desirable to maintain competition with regard to international news agencies, those favoring government participation in some manner being evenly matched by those who want private competition.
10) Answers on Inland Waterway Corporation are mixed. The question needs clarification.
11) The sentiment favoring competition in anthracite coal mining is stronger than monopoly sentiment.
12) Answers on forest lands are mixed; they conform to mixed situations.
13) Twenty-eight favor goverment monopoly of Federal Reserve banks and only a minority of 11 favor present government regulation of a private monopoly. This question needs clarification as to bases or criteria—namely, ownership, management, profits, and service—distinguishing government and private enterprise, since many expressed approval of the "present setup" and checked column I.

14) War plants conversion offers another mixed situation which brought forth mixed answers with strong sentiment favoring competition.

It is interesting to note that the pattern of answers from Group 10 is almost identical with the one shown for all answers. (Cf. question 28.)

45. Answers to this question should be correlated with answers to all questions involving public expenditures. A break-down of federal, state, and local expenditures should have been called for.[9] The summary shows a wide variation of estimates; e.g., from 15 to 75 billion dollars with a median range from 30 to 35, three-quarters of the answers falling within the range 20-35. Taken by itself answers to this question would seem to point in the direction of a contraction of governmental functions rather than expansion. This may be due to the lack of familiarity with the cost of governmental enterprise on the part of those not specializing in public finance, or may reflect a general desire to curtail governmental activity though favoring many of these activities when considered as special, independent issues. To the credit of the extremists it may be said that their answers generally conform with the amounts of expenditures they recommend.

VI. *The Essay Answer on "What Should Be the Functions of Government in the Postwar American Economy?"*

Both the general and the monetary questionnaires called for a brief 250-300 word statement of the essay type of answer. A gratifying number of excellent vignettes were submitted. Many of them are well worth publishing. Comment has been made above on the difficulty of typifying or summarizing answers of this sort but a start has been made and the results may prove fruitful. This question, coming as it did after the detailed survey in the general questionnaire, served to crystallize ideas somewhat and many answers followed a pattern which promises to be easier to generalize than was the symposium of the past presidents referred to previously. However, finding common elements and characteristic differences in a large number of answers is a slow process and the task has yet to be done.

VII. *The Monetary Questionnaire*

The special questionnaire addressed to 130 monetary economists

[9] In order to make estimates comparable a summary prewar budget for federal, state, and local expenditures might have been included in the question, with the most authoritative estimates, perhaps, of postwar budgets. Those should show the so-called "inescapable" items as well as "discretionary" expenditures; e.g., public works, social security, veterans, relief, subsidies, and foreign investments. However, despite the lack of a bench mark or specific point of departure, the answers do reflect broad general differences.

produced some 70 answers which are included in this analysis. The results are tabulated below:

QUESTIONNAIRE TO MONETARY ECONOMISTS
(70 answers)

	Yes	*No*	Comment
			Total: Yes/*No*
1. ALL THINGS CONSIDERED, DO YOU FAVOR, FOR THE UNITED STATES, A RETURN TO THE GOLD STANDARD AFTER THE WAR?	22	*11*	6:3/*2*
(a) A free gold coin standard, i.e., present legal definition of the dollar unit in terms of gold; with free conversion of bullion into coin and coin into bullion at fixed calculable rates; free gold movements,—export and import; convertibility of all lawful money into gold at face value?	11	*24*	19:3/*9*
(b) Gold bullion standard?	48	*11*	16:12/*3*
Is your approval of (a) or (b) subject to any of the following conditions:			
i. Only if other key commercial countries agree to return to some form of gold standard?	22	*17*	8:3/*4*
ii. Only if all countries (e.g., the 44 participants at the Bretton Woods Conference) agree to return to some form of gold standard?	6	*26*	5:1/*3*
iii. Only if general agreements are made to eliminate all forms of discrimination in international commerce and finance?	10	*23*	13:5/*4*
2. WOULD YOU FAVOR A MANAGED PAPER STANDARD FOR THE UNITED STATES IN THE POSTWAR PERIOD?	21	*39*	38:18/*13*
If yes, under what conditions?			
3. DO YOU FAVOR:			
(a) The general purposes of the Bretton Woods agreements?	66	*1*	10:7/*0*
(b) The financial machinery proposed for these purposes?	23	*5*	5:2/*2*
i. The Fund?	52	*15*	15:9/*5*
ii. The Bank?	63	*3*	15:12/*1*
(c) Dealing with problems of war to peace transition and long-run currency stabilization under a single plan?	22	*19*	25:9/*6*
4. DO YOU BELIEVE THAT:			
(a) Exchange stability of the currencies of the major commercial countries of the world should be a condition precedent to a trade solution of world economic disorders?	22	*29*	29:10/*11*
(b) Before monetary stabilization is attempted it will be necessary to restore a sound national internal economic system, i.e., balanced budgets, absence of inflation, funding floating debts, unrigged interest rates, removal of price and rationing controls, and restoration of free competitive forces?	17	*33*	32:8/*13*
(c) Problems of both internal and external stability of the dollar should be considered at the same time?	48	*8*	25:12/*5*

1. Turning now to the individual items, it appears that a large majority of monetary economists prefer a gold standard to a managed paper standard for the United States in the postwar period.

Only 33 answered the general "return to gold" question (22 Yes and 11 No) and apparently the free gold coin standard does not seem

practicable or necessary to a majority of those who answered (11 Yes, 24 No), but the gold bullion standard (and many add the gold exchange standard) is favored by 48 out of the 59 who answered. Many answers favoring the gold standard were not conditioned, but 55 per cent (22 Yes, 17 No) approved, subject to like action by other key commercial countries. Only a minority would make a return to gold subject to agreement by all important countries or would wait for agreements to eliminate all ("reduce major forms" would have been less strong) commercial and financial discrimination.

2. A managed paper standard is favored by 21 out of 60 answers. A large number of comments enable the analyst to appraise these answers. Some approve a managed paper standard "such as we have today" and many others tie up paper to gold in ways differing little from the flexibility given a "modernized" gold standard by some of its advocates in answers to questions 1a and b. There is little doubt, however, about major differences. A managed paper standard is favored chiefly by those who see the need for price control by means of monetary manipulations, who advocate adjusting foreign exchange rates to domestic price levels, and who would vary taxation and government spending to control business cycles.

3. There is almost unanimous approval of the general purposes of the Bretton Woods agreements; i.e., that international financial co-operation is necessary if we are to have world order and peace. However, only 5 oppose and 23 favor the financial machinery proposed for implementing[10] these purposes. Fifty-two favor the Fund, which 15 oppose, and 62 favor the Bank, which only 3 oppose. Nearly all of the many comments made indicate that the Bank is the more promising of the two institutions and that the Fund especially needs modifications before being put into operation.

Question 3c before correction was meaningless, the word "with" appearing instead of "and." Those who interpreted the question correctly seem to favor concurrent treatment of transitional (e.g., the Fund) and long-run currency stabilization (e.g., the Bank) problems, but the evidence, even including the comments, is not clear and the answers cannot be taken at face value.

4. A large majority of those answering this question favor joint consideration of (a) problems of internal stability and trade balances and (b) exchange stabilization.

[10] The word "attempting" appeared on an uncorrected draft which got out.

VIII. *Conclusion*

Only a few tentative conclusions can be drawn from the results so far obtained from this experiment. We set out to see "if a consensus of informed and professional opinion and judgment on economic issues does in fact exist and if feasible ways can be devised within the Association to discover such consensus." We selected the questionnaire method rather than the panel report method[11] because of the vague and unwieldy character of the subject assigned to us. The panel device was not, however, completely abandoned since we included the general question on the functions of government in our questionnaire and a well-edited summary or digest might logically serve as a first draft report for the inner committee to work on before submitting its final draft to a panel of consultants. The multiple general-special questionnaire, however, provides the bulk of the evidence for this interim report.

The experience of the inner Committee of Six confirms what all concerned had suspected; namely, that the framing of the questions would prove the hardest part of the job. If, however, we could have worked as a staff, in the same office, our six months' task might easily have been accomplished in as many days.

Another lesson which this experience teaches is that in framing the questions we might have done better had we limited to a narrower range a sample of questions broken down into smaller fragments. The large number of comments and reservations made show definitely that, in the case of a number of questions, more clean-cut answers could have been obtained.

While the results do not prove that formally trained economists agree on all measures of economic policy the evidence disproves convincingly the popular gibe that "the economists of the country, laid end to end, arrive at no conclusion," or as the banker delegate to Bretton Woods stated it in explaining that he learned there what a professional economist is: "A professional economist is anyone who disagrees with another professional economist." Economists like scientists are not interested in discussing the obvious, but they do like to argue over controversial points. It is on the fringe of knowledge that doctors differ and it is in this nonagreement area that debatable issues are found. The topics selected are those which have, are now, or are likely to be issues of public policy and on this sample there is far more agreement than disagreement.

Further analysis would very likely produce more agreement than we are here able to report. Space does not permit a comparison of the an-

[11] The questionnaire method has the advantage of permitting large-scale expression of agreement and disagreement on a number of specific points. Panel reports have the advantage of permitting minute refinements to be made by a few participants but suffer when submitted to a large poll in that minor differences cannot be taken into account—the report must either be accepted or rejected.

swers—total and by selected questions and groups of questions—classified according to respondents; e.g., the inner Committee of Six, Group 10, those in public employment. If the sample could have been enlarged, characteristic answers might have been forthcoming from the Public Finance, Money and Banking, Theory, Business Cycle, and other groups of our Association classification which are much concerned with the functions of government. Further tests have been suggested; e.g., random samples from nonprofessional groups, from *Who's Who in America,* from the local telephone directories, etc.

With the data now at hand instructive results might be forthcoming by comparing the answers to question II according to the classes of answers found in question I; e.g., those who favor private enterprise, public control, etc. A preliminary analysis of this sort shows characteristic differences. Answers to questions 40 and 45 ("How much should the government spend?") with 35-39 and 28, 44 reflect relationships of significance. Answers of specialists to specific questions in labor, social security, education, public control, business cycles, etc., should be more intelligent or, at least, more informed than the answers of non-specialists. We need more evidence of this sort before we can safely state that experts agree on technical questions more closely than do non-specialists.

Questions of public policy are not always answered, and, perhaps, less often decided, on the basis of reason and objective logic. In some few cases only did respondents confess that certain answers were based upon prejudice or emotion. A review of the answers prompts the writer to classify three kinds of persons answering questionnaires: (1) those who answer everything and without qualification, (2) those who qualify everything and answer nothing directly (several penetrating and discriminating letters were submitted in lieu of returning the questionnaire), and (3) those who answer only the questions they feel fully qualified to answer—with or without annotations. This may reflect the general character of the species but there is probably another reason; namely, the theorist may answer on general principles, the humanitarian on the basis of social welfare, and the practical economist on the basis of marginal utility or cost, etc. A class, group, or special interest of "economists" is not apparent anywhere in the answers.

Even if our methods proved satisfactory and it was established that a consensus can be obtained, further questions still remain unanswered; viz., can or should the results be used to influence public policy, and should the Association assume the responsibility of sponsoring consensus reports? There is no doubt that the public is interested in the opinion of experts and will demand them whether they are volunteer statements or sponsored by professional associations or learned so-

cieties, whether they are issued by quacks or by scientists, whether they represent careless, snap judgments or are scientifically prepared and safeguarded. Public statements bearing prominent names exert influence whether or not they serve to "enlighten" mankind. The question of the Association's function and responsibility in such matters is admirably treated by C. O. Hardy in the report of the Subcommittee on Association-Sponsored Consensus Reports in this volume of the *Proceedings*. Perhaps this paper may, at least, serve to assuage the curiosity of those who participated in this interesting experiment.

AMERICAN ECONOMIC ASSOCIATION

PROCEEDINGS OF THE FIFTY-SEVENTH ANNUAL MEETING

Washington, D.C.
February 1-2, 1945

(Since the formal meetings were canceled, the business of the Association was transacted by the Executive Committee.)

REPORT OF THE PRESIDENT TO THE EXECUTIVE COMMITTEE FEBRUARY 1, 1945

Annual Meeting Program. The cancellation of the joint annual meeting proved regrettably necessary in mid-January, to the disappointment of all concerned. Details are available if desired. I doubt that it will be feasible to schedule a meeting in the year ahead, even if the V-E day should fall in 1945.

Creative tasks are involved in preparation for the annual meetings. This year's "integrated program" entailed much labor by many members of the co-operating associations. Copies of the printed program, which were mailed to A.E.A. members in the Washington area, sufficiently indicate its nature and scope. Part of the results can fortunately be salvaged through publication in the A.E.A. *Proceedings* and several journals.

Dr. James W. Fesler, program chairman of the American Political Science Association, shared with me the leadership in making and carrying through the plans, and I owe him much for earnest, continuous, and effective collaboration. He handled most of the co-operation with Dr. G. Lyle Belsley, program chairman of the American Society for Public Administration.

Each of the three of us enlisted the skillful aid of individuals in arranging for specific section meetings. For such service I am deeply indebted to R. D. Calkins, H. S. Ellis, E. G. Nourse, C. E. Puffer, L. H. Seltzer, Horace Taylor, D. H. Wallace, M. W. Watkins, and T. O. Yntema. For leadership in two consensus-report committees, which were to have charge of other sections, the Association owes much to J. W. Bell and E. J. Working. Many others generously aided with general or specific counsel, and surprisingly few failed to respond.

John Donaldson faithfully discharged onerous tasks connected with the printing of the program. Milton Gilbert made excellent arrangements for rooms and was prepared to manage other local arrangements efficiently. Henry Reining, Jr., representing the two co-operating associations, had agreed to handle the publicity.

I regret that our projected experiment with a "streamlined" business meeting could not be made, and hope that the ideas evolved can be reviewed when it again becomes feasible to hold an Association business meeting.

The Executive Committee ought, I think, to decide certain matters of general policy in regard to the program of annual meetings. My experience leads me to suggest three recommendations:

1. An integrated program, such as was undertaken this year, should not be attempted with more than one other association (e.g., American Statistical Association, American Political Science Association, American Farm Economic Association) in any one year.
2. In the absence of an integrated program, specific joint programs can advantageously be arranged with each of two or more associations.
3. Not more than two presidential addresses should ordinarily be scheduled for a given session, and never more than three. If the Executive Committee should favor the president's address as the sole feature of a session, he should be so instructed early in his term.

Committee Work. In addition to annual and standing committees, several special committees have been at work since the April, 1944, meeting of the Executive Committee and will make definitive or progress reports of importance. The recommendations of the committee of which Horace Taylor is Chairman, especially deserve careful consideration now. I have certain recommendations growing out of the report on honorary members which I wish to present when that report is considered.[1]

The two experiments with consensus committees, E. J. Working's on "Agricultural Price Supports and Their Consequences" and J. W. Bell's on "The Function of Government in the Postwar American Economy," have not yet been brought to fruition, and the cancellation of the annual meeting has hampered their progress. Others agree with me in regarding these experiments as very promising, and I recommend additional experiments of the same general type. Meanwhile, I doubt if the time is ripe to take final action on the series of proposals beginning with those made by the Graham Committee and culminating in the report of the subcommittee of which C. O. Hardy has been Chairman.

I am inclined to believe that committee activities may well undergo expansion in the next year or two, while transportation and hotel conditions continue to prevent or hamper Association meetings. Much of the committee work can be handled by mail, and it affords opportunities for participation by representative members all over the country.

Professor Roland S. Vaile's suggestion for a Committee on Consumption Economics may well be referred to the new Executive Committee. I also suggest the desirability of creating a committee on some such subject as "Economists vis-à-vis the Public Service," complementary to the Committee on Economists *in* Public Service.

In general, I believe that the "terms of reference" for committees should be given careful consideration before committees are set up, and later revised as experience and needs warrant.

Book Reviewing. We have reason to be well pleased, in general, with the editorship of the *Review*, but three strong complaints in connection with book reviews were brought to my attention during the year. Even in Dr. Homan's absence, I feel that the Executive Committee should give this matter some attention, since festering grievances have been affecting the morale of the Association in more than one quarter.

On the most troublesome case I have already made certain moves, after correspondence with Dr. Homan and in consultation with Secretary Bell and Acting Managing Editor Machlup, and have a memorandum to submit to the Executive Committee.

The several cases seem to me to indicate the need for clearer formulation

[1] Relative to the report of the Committee on Honorary Members, I suggest: 1. The Executive Committee may well approve, subject to present and future amendment, the basis of selection recommended by this year's committee, and adopt the policy of having further nominations made once in three to five years. 2. In the future the report on election of honorary members should be made a significant feature of the Association business meeting. 3. The Executive Committee may well ask the Secretary to prepare, or to arrange for the preparation of, an article on honorary members for the *Review*.

of policy in this field and for adoption of improved procedures in several respects. I suggest that the incoming president appoint a committee of three to report on this matter at the next meeting of the Executive Committee. If this is done, I should be glad to turn over to this committee such materials and ideas as I have accumulated on the subject.

Conclusion. My impression is that in general the Association is in very good health, but that a great deal of work is involved in translating its opportunities into achievements.

I wish to pay warm tribute to the devoted, efficient, and valuable services of the Secretary-Treasurer, James Washington Bell, with whom I have worked in close and enjoyable harmony. Foremost among the many others who have given me generous help are the three preceding presidents, Vice-President Hardy, W. L. Crum, Fritz Machlup, and Horace Taylor. I have already been in correspondence with my successor, I. L. Sharfman, and am eager to surrender the office into his competent hands.

Respectfully submitted,

JOSEPH S. DAVIS, *President*

REPORT OF THE SECRETARY FOR THE YEAR 1944

The following report includes minutes of the Executive Committee (the second and third meetings of the 1944 Committee), together with brief comments on some of the activities and operations of the Association during the past year.

1. Minutes of the second meeting of the 1944 Executive Committee:

The second meeting of the 1944 Executive Committee was held at the Biltmore Hotel, New York City, April 7 and 8, 1944, at 1:00 P.M., recessing at 6:00 P.M., to sit again at 6:30, recessing at 11:30 P.M., was recalled at 9:00 A.M., April 8, meeting through the lunch hour and adjourning at 3:00 P.M. There were present: President Davis, presiding, and Messrs. Bell, Crum, Edwards, Fetter, Hardy, Homan, Nourse, Schultz, Shoup, Slichter, Watkins, and Wolfe, and, by invitation, Frank H. Knight, representative to the American Council of Learned Societies, and Simeon E. Leland, representative to the Social Science Research Council; and, as members of the Nominating Committee, Messrs. Norman S. Buchanan, Arthur R. Upgren, John V. Van Sickle, Donald H. Wallace, and Mrs. Aryness Joy Wickens. Also invited to attend were Frank D. Graham and C. Reinold Noyes.

Minutes. The minutes of the first meeting of the 1944 Executive Committee, held in Washington, D.C., January 23, 1944, were read and approved as printed in the *Proceedings of the Fifty-sixth Annual Meeting*, page 406.

President's Remarks; Managing Editor. After preliminary remarks by President Davis, the Committee received an oral report from Dr. Paul T. Homan, Managing Editor, concerning the problems of the *Review.*

Graham Report. Thereafter, other reports were postponed to permit discussion of reports from the Committee on the Focusing of Informed Opinion, which Professor Frank D. Graham (Harry D. Gideonse) and C. Reinold Noyes had been invited to present in person. The Graham Committee proposal raised many questions involving the expansion of the scope of Association activities and other matters. After extended debate, it was voted to refer the subject to a subcommittee of the Executive Committee, such committee to study and report further recommendations to the Executive Committee either by mail or at the next meeting. The president was authorized to appoint additional members to this committee.

Secretary's Report. The Secretary reported the completion of the *Proceedings* and submitted the time schedule of manuscript, galley, and page proof. He was authorized to proceed with a supplementary monograph on the "implemental aspects of public finance," to appear with the June number of the *Review*, and to add the expense to the cost of publishing the *Proceedings*. The 1944 supplement to the *Directory* and the revision of the 1942 *Directory* were discussed. Copies of the new edition of the information booklet were circulated. Membership changes were reported. Brief comments on the activities and relationships of the Association to the American Council of Learned Societies and the Social Science Research Council were made by Professors Knight and Leland. The Secretary was authorized to comply with the request of the American Library Association and the American Council of Learned Societies for the preparation of book lists on economics for European libraries.

Treasurer's Report. The Treasurer submitted an oral report on the financial condition of the Association.

Blakiston Committee. The Secretary reported for the Blakiston Committee (H. S. Ellis, Chairman) that Volume II, on business cycles, was in press and should appear in the near future, and that an *ad hoc* committee was being constituted (B. F. Haley, Chairman) for Volume III, on income distribution.

Committee on Honorary Members—Foreign. President Davis announced the appointment of a 1944 Committee on Honorary Members (Foreign): Joseph A. Schumpeter, Jacob Viner, and a third member yet to be appointed [Joseph H. Willits]. He asked that members of the Executive Committee take the initiative in making suggestions to this Committee by mail.

Honors and Awards for American Economists. President Davis submitted a resolution, voted upon and passed, that the Executive Committee be authorized to appoint an exploratory committee (1) to inquire into the types, purposes, and effects of systems of honors and awards maintained by various American scientific, engineering, and professional societies; (2) to explore the possible desirability of instituting some specific scheme in the

American Economic Association; and (3) to report to the Executive Committee with positive or negative recommendations.

Teaching of Social Studies in the Secondary Schools. President Davis explained the present status of the project of the National Council for Social Studies for an interdisciplinary committee on teaching of the social studies in the schools. It was voted that we agree to co-operate and the President was authorized to appoint members to such a committee if the project materializes.

Undergraduate Teaching of Economics and Training of Economists. This related but separate topic was discussed by A. B. Wolfe and others, and, after further definition of the problem by President Davis, it was voted to authorize the appointment of a committee to study and report on possible improvements in undergraduate teaching of economics and the training of economists.

Improvement of Annual Business Meeting. At the suggestion of President Davis, it was voted to refer to the President, Secretary, and others whom they should select, the problem of improving the character of the annual business meeting.

Membership. It was voted that a committee be appointed to look into the matter of classification of members; to the possible addition of businessmen members while avoiding the dangers of undue dilution of its present professional character; and to examine the feasibility of changing life membership dues (which involves an amendment to Section 1 of the Charter).

National Wartime Conference. It was voted to decline the invitation of the National Wartime Conference to participate officially in their activities.

Nominations. The joint meeting of the Nominating Committee and the Executive Committee, constituting the electoral college for the purpose of nominating the president for 1945, convened at dinner on Friday evening, and the Nominating Committee reconvened Saturday morning to complete drawing up the panel of the remainder of the slate. After concluding their business, members of that Committee were invited to sit in with the Executive Committee for the balance of the session.

Annual Meeting. The annual meeting was the subject of discussion before and after lunch on Saturday, April 8. Professor Helen M. Walker, President of the American Statistical Association, discussed tentative plans of that Association for a meeting in Washington. It was decided to proceed with plans for a joint meeting with the American Political Science Association (and the American Society for Public Administration) to be held either during the period December 1-15, 1944, or after January 15, 1945.

2. Minutes of the third meeting of the 1944 Executive Committee:

The third meeting of the 1944 Executive Committee was held at Hotel Statler, Washington, D.C., February 1, 1945, at 10:00 A.M., through lunch, and adjourning at 5:45 P.M. Present were: President J. S. Davis, presiding, Mrs. Eveline M. Burns, and Messrs. Bell, Chamberlin, Edwards, Ellis, Fetter, Groves, Hardy, Leland, Machlup, Nourse, Sharfman, Shoup, and Taylor.

Minutes

The minutes of the Executive Committee meeting held at the Biltmore Hotel, New York City, April 7-8, 1944, were read and approved as distributed on May 1, 1944.

President's Report

The remarks of President Davis concerning the program of the annual meeting, the work of the committees particularly active during the past year, suggestions for future activities of the Association, and the editorial policy concerning book reviews are presented in a special report. (See page 450.)

Report of the Acting Managing Editor

It was voted to accept the report of Acting Managing Editor Fritz Machlup as printed below. In approving the budget proposals for the 1945 *Review*, questions were raised concerning the need of the request for extra clerical help and the reasons for the tardy appearance of the December number of the *Review*. In the latter connection, it was voted to request the Acting Managing Editor to revise the schedule and make any other rearrangements necessary to insure prompt appearance of the *Review*.

It was voted to extend to the Brookings Institution an expression of our appreciation and debt of gratitude for the privilege of using quarters in its building as the temporary office of the Managing Editor. We have been fully conscious of the advantages gained in enjoying this hospitality but the officers of the Association have perhaps been remiss in failing to express themselves.

After an extended discussion of the Managing Editor's book review policy—chiefly concerning Professor Hartkemeier's complaint about Managing Editor Homan's handling of the review of Mordecai Ezekiel's book on *Methods of Correlation Analysis*—it was voted:

1. That the Executive Committee accepts and approves as representing its view the entire memorandum drawn up by J. S. Davis on the matter.

2. That the Secretary advise Professors Homan and Hartkemeier that in our judgment it would not be to their best interests or to the best interests of the Association to have published in the *Review* the draft statement presented in J. S. Davis' report.

3. That the Executive Committee reaffirms the principle that the Managing Editor should not publish manuscripts which have not been explicitly or tacitly approved by the author in final form.

4. That a committee be appointed to formulate a statement of editorial policy and procedure with regard to book reviews.

A Committee on Book Reviews, consisting of Howard S. Ellis, Chairman, Eveline M. Burns, and Frank W. Fetter, has been appointed by President Sharfman.

Upon recommendation of the Acting Managing Editor, K. E. Boulding and P. T. Ellsworth were appointed for three-year terms to succeed Dale Yoder and A. G. Hart on the Editorial Board.

Secretary's Report

The Secretary's Report was accepted and ordered published.

It was voted to approve an honorarium to Miss Gertrude Tait as an appreciation for faithful and efficient service rendered the Association during an especially difficult period in the Secretary's Office.

It was voted to authorize reimbursement of expenses of the members of the Executive Committee in attending these meetings, which were not in this instance held in conjunction with the annual program.

Treasurer's Report

The Treasurer's Report was accepted and ordered published with an expression of appreciation for the extended analysis of the Association's finances over the past number of years.

The *Auditor's Report* was accepted with a vote of thanks to David Himmelblau and Company for their painstaking and thorough audit of the Association's records.

Finance Committee Report

In accepting the report of the Finance Committee, the Secretary was instructed to communicate a vote of thanks to Roy C. Osgood and Charles C. Wells and to express the appreciation of the Association for the especially fine financial record described in the Treasurer's Report and made possible by their faithful attention and good judgment. Messrs. Osgood, Wells, and Bell were re-elected to serve on this Committee for another year.

Other Committee Reports

1. *Honorary Members—Foreign:* The report of this Committee, of which J. H. Willits is Chairman, was read and accepted and the Committee was discharged with thanks. It was voted to authorize the appointment of a committee to prepare a draft of procedures for the election of honorary members, taking into account the principles of selection presented in the Willits' report.

2. *General Committee on Republications:* The report of the committee on the Blakiston series of republished articles was submitted by Howard S. Ellis, Chairman, and accepted with satisfaction and approval and ordered printed in the *Proceedings*.

3. *Economists in the Public Service:* An interim report, submitted by Morris A. Copeland, Chairman, was read by J. S. Davis, and it was voted to extend the life of the Committee until the spring meeting of the Executive Committee, at which time a final report is expected to be presented. This report may determine the need of continuing or discharging this Committee, since there is some indication that its work might be taken up by a more comprehensive group in the social sciences.

4. *Report of Our Representative to the Social Science Research Council:* An informal report was made by S. E. Leland on the activities of the Social Science Research Council which are of particular interest to our Association. He suggested the establishment of a committee on research which would be the appropriate agency of the Association to collaborate with committees of the Council having to do with promoting research. It was

voted to authorize the appointment of a committee to investigate the desirability of constituting a committee on research, define its terms of reference, and bring in a plan of organization and operation if the establishment of such an agency were considered desirable.

5. *Committee on Association-Sponsored Consensus Reports:* It was voted to accept a report read by C. O. Hardy, Chairman, publish all but the conclusion, and refer it to the new Executive Committee for acceptance and final action.

In June, 1944, the Executive Committee approved by telegraphic communication a grant of leave of absence to Professor Paul T. Homan to permit him to accept an important post in London on public duty. Dr. Fritz Machlup was appointed Acting Managing Editor, pro tem.

The Secretary was instructed to draft a resolution of appreciation and thanks of the Association to J. S. Davis for his effective leadership during the past year.

The meeting was recessed at 5:45 P.M., to be reconvened at 9:30 A.M., February 2, 1945. Present were: President Davis, presiding, Mrs. Eveline M. Burns, and Messrs. Bell, Chamberlin, Ellis, Fetter, Groves, Hardy, Machlup, Nourse, Sharfman, Shoup, and, by invitation, Horace Taylor. The meeting was called to order by J. S. Davis and the Secretary presented the following Certification of Election:

In accordance with the bylaws on election procedure, I hereby certify the results of the recent balloting and present the reports of the Nominating Committee and the Committee on Elections.

The Nominating Committee, consisting of Edwin G. Nourse, Brookings Institution, Chairman, Norman S. Buchanan, University of California, Arthur R. Upgren, Federal Reserve Bank of Minneapolis, John V. Van Sickle, Vanderbilt University, Donald H. Wallace, Office of Price Administration, and Aryness Joy Wickens, Bureau of Labor Statistics, presented to the Secretary the list of nominees for the respective offices.

For President
I. Leo Sharfman

For Vice-Presidents
Harold M. Groves
Bernard F. Haley
George B. Roberts
Amos E. Taylor

For American Council of Learned Societies Representative
Joseph A. Schumpeter
Herbert von Beckerath

For Executive Committee
Eveline M. Burns
Melvin G. de Chazeau
Howard S. Ellis
Abraham D. H. Kaplan

For Social Science Research Council Representative
John W. Riegel
Joseph J. Spengler

The Committee on Elections (John W. Boatwright, Chairman, Earl J. Hamilton, and James Washington Bell) prepared biographical sketches of the candidates and ballots were distributed in November. The canvass of ballots was made on January 5, and the results were filed with the Secretary.

From the report of the Committee on Elections, I have the following information:

Number of envelopes without names for identification	6
Number received too late to count	47
Number of defective ballots	20
Number of legal ballots	1,691
Number of returns from the mail ballot	1,764

On the basis of the canvass of the votes cast, I certify that the following persons have been duly elected to the respective offices:

President (for a term of one year)
I. Leo Sharfman

Vice-Presidents (for a term of one year)
Harold M. Groves
Amos E. Taylor

Members of the Executive Committee (for a term of three years)
Eveline M. Burns
Howard S. Ellis

Representative to the Social Science Research Council (for a term of three years)
Joseph J. Spengler

Representative to the American Council of Learned Societies (for a term of four years)
Joseph A. Schumpeter

3. Minutes of the first meeting of the 1945 Executive Committee:

Upon taking the chair, President I. L. Sharfman outlined the order of business yet to be completed and called first upon Professor Horace Taylor to present the report of the Committee on Undergraduate Teaching of Economics and the Training of Economists. Professor Taylor reviewed the work of the Committee and supplemented the report, which had previously been sent out by mail to all concerned, with "A Suggested Procedure for Exploratory Subcommittees."

After a discussion of Professor Taylor's report and of methods of procedure the following actions were taken:

1. Voted to accept and publish the report with appreciation for the excellence of the work performed.
2. Voted to approve the proposed subcommittees and appointments of personnel.
3. Voted to authorize expenditures up to $1,000 to cover out-of-pocket expenses for sending out questionnaire, communications, travel expenses for steering committee members and to call for budget recommendations by the chairman at the next meeting of the Executive Committee.

Exploratory Committee on Honors and Awards

Dr. Nourse presented a report on honors and awards submitted by S. H. Slichter, Chairman, which was accepted and ordered published, with the exception of the paragraphs setting forth the tentative conclusions of the Committee. The Committee was asked to continue its exploration and to report further at the spring meeting of the Executive Committee.

Ratification of Amendments to A.C.L.S.

It was voted to ratify amendments to the charter of the American Council of Learned Societies—amendments designed to simplify administrative procedure—which had been approved by the Council at its meeting on January 25, 1945.

National Bureau of Economic Research Representative

To succeed C. R. Noyes, whose five-year term expires in February, 1945, Donald H. Wallace was nominated as representative of the Association. The President was instructed to write to Mr. W. J. Carson that the failure to renominate C. R. Noyes is not to be construed as any reflection upon his suitability, since his service has been eminently satisfactory, but that the Executive Committee feels the desirability of some rotation in this office.

It was also the consensus that nominees for representative to the N.B.E.R. should be made a matter for the nominating committee to consider in the first instance.

The question of change in methods of selecting representatives to A.C.L.S., S.S.R.C., and N.B.E.R. will be placed on the agenda for the spring meeting.

The meeting reconvened after lunch and listened to a report from E. G. Nourse on the experience of the Nominating Committee. I. L. Sharfman presented a preliminary panel of the new nominating committee and asked for suggestions in constituting this body.

The time and place of the spring meeting of the Executive Committee was discussed and left in the hands of the President and Secretary. April 19-21 seemed to be the most appropriate date, and most members favored meeting in New York City or somewhere outside of Washington. In the light of persistent uncertainties, the possibilities of an additional meeting of the Executive Committee in May, June, or July was discussed.

Professor Sharfman read a draft of a questionnaire which he had framed for the purpose of interesting members of the Association and soliciting their aid in planning for the 1945 meetings or for alternative procedures if no Association meeting can be held. It was voted to prepare and send out the questionnaire and to present the results at the spring meeting.

After further discussion of consensus report experiments, it was pointed out that should the Committee on Consensus Reports be continued, new members would have to be appointed to replace C. O. Hardy, L. L. Watkins, and W. L. Crum, who are retiring as members of the present Executive Committee.

Professor Davis read a letter from Roland S. Vaile, proposing the establishment of a committee on consumption economics. This was referred to President I. L. Sharfman.

The Secretary was requested to draft and send letters of appreciation to members of the

Local Arrangements Committee and to others who in various ways helped to plan and to perform the necessary operations to bring about what might have resulted in a successful meeting.

Meeting adjourned at 3:00 P.M.

Comments on Activities and Operations

Annual Meetings. Since cancelling the Cleveland Convention in 1942, the annual meetings of the Association have been held in Washington, D.C. This year again we had planned to meet in Washington, and had a second time arranged a joint program with the American Political Science Association and the American Society for Public Administration.

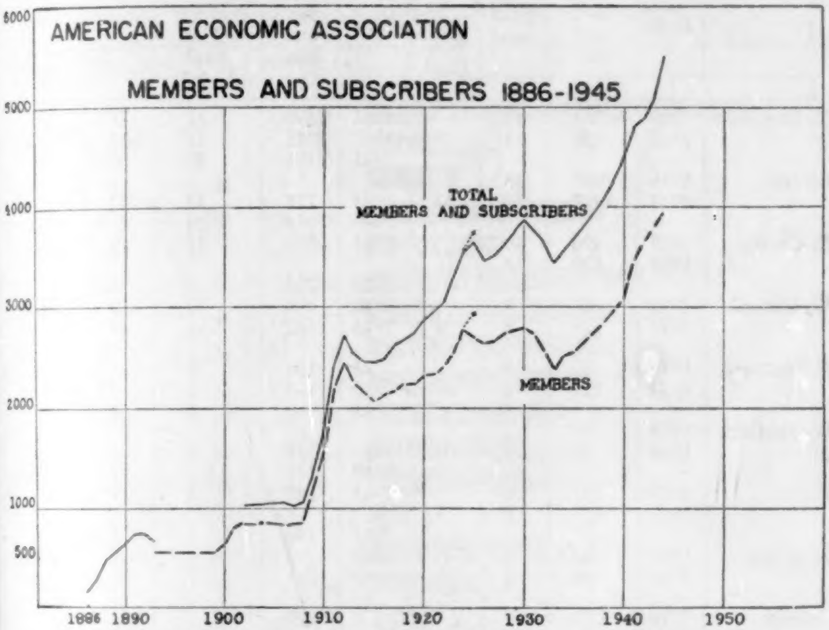
The joint meeting this year had, from the beginning, been planned as a local one. It was planned to meet in Washington rather than elsewhere because of the predominant number of members residing in the District of Columbia and the vicinity. The scheduled meeting was to be national only in name. Only the officers of the Association, and, in a very few cases, participants on the program from outside of Washington were invited to attend. The time chosen for the meeting, February 1 to 4, was not adapted to the convenience of professors' schedules since they would find it very difficult to leave their work during that period. No effort was made, as was the case last year, to schedule and encourage concurrent local or regional meetings to tie-in with the Washington meeting.

The above facts were communicated to the ODT in response to a circular letter addressed late last October to executive officers of all associations holding conventions, requesting the cancellation of such meetings until April 15, 1945. We asked in this communication that we be notified of the fact if our plans contravened in any particular the letter and spirit of ODT regulations and expressed our intention to carry on as indicated unless so notified. No answer to this communication was received.

The radio and newspaper announcements from the Office of War Mobilization and Reconversion Director James F. Byrnes on January 6 and 7 led to certain modifications in details of our plans in the hope of bringing them fully into line with the recently announced policy. Formal applications for approval of the meetings were submitted, with a strong supporting letter, to the official committee. Before these were acted upon, it became clear that such approval would be withheld or denied. The presidents of the representative associations, Messrs. Davis, White, and Gulick and Messrs. Fesler, Reining, and Belsley of the Local Arrangements Committee therefore decided voluntarily to cancel the meetings. The programs distributed to members in advance of the meeting bore a notice to that effect. Notices were sent to officers of the Association that the Executive Committee would meet as scheduled to perform the necessary business of the Association and instructions were forwarded to participants to send in their papers for publication in the annual volume of *Papers and Proceedings*. Plans for future annual meetings are thus left in a very fluid condition and they probably will be taken up again at the spring meeting of the Committee. When more propitious events permit the renewal of annual meetings, we will again consider the question of time and

place, as well as the character, of these meetings. Many members have expressed their desire to meet outside of Washington. Some wish to meet separately, others jointly with the American Statistical Association and/or with other associations or groups.

Membership Growth. Our list of members and subscribers continues to grow at a gratifying pace. (See accompanying chart.) We now have a total of nearly 4,000 members and over 1,500 subscribers, a net gain over last year of 403, the largest in recent years. (See Exhibit II.)



[Figures from 1942 Directory and Annual Reports of Secretary
*-Figures for 1925 corrected - Members dropped for non-payment of dues.]

The growth of our Association seems to have taken place in stages: (1) from 182 in the year of its foundation in 1886 membership increased to over 700 in the 1890's; (2) another plateau was reached in the 1900's until 1909 when a very rapid rise occurred; (3) from 1912 to 1915 both memberships and subscriptions fell off; viz., from about 2,700 to around 2,450, after which a gradual growth was experienced until the efforts of a Special Membership Committee boosted the figures to new highs in the early 1920's; (4) memberships remained fairly stationary in the latter 1920's though subscriptions continued to grow; (5) from 1930 to 1933 we suffered a decided slump; (6) since that date we have enjoyed a period of very rapid growth.

Subscriptions in 1893 amounted to about 12.5 per cent of total membership and subscribers; in 1902 the proportion was still about 15 per cent, and 1910 less than 12 per cent; in 1920 the percentage was 20 and in 1930 sub-

scribers constituted about 27.5 per cent of total mailing list, since when the proportion has not substantially changed.

The chief single source of income to the Association is the dues from members and subscriptions to our publications. Our efforts are constantly bent in the direction of enlarging our membership. Our object is to obtain the

GEOGRAPHICAL DISTRIBUTION OF MEMBERS AND SUBSCRIBERS

	Date	No. of mem. and sub.	% of total	Pop. of U. S., % of total	Date	No. of mem. and sub.	To nearest whole number		
							% of total U. S.*	% of total†	
N. England	1919	381	14		1933	1590	52	45	
	1924	429	12	7	1940	2015	51	45	N. East
					1943	2494	53	50	
Eastern	1919	1040	38						
	1924	1287	36	24	1933	776	23	22	
					1940	958	24	22	Middle
E. Central	1919	496	18		1943	976	21	19	
	1924	629	17	21					
					1933	203	7	6	
W. Central	1919	201	7		1940	404	10	9	S. East
	1924	295	8	9	1943	582	15	12	
E. Southern	1919	87	3		1933	104	3	3	
	1924	141	4	18	1940	114	3	3	S. West
					1943	160	4	3	
W. Southern	1919	55	2						
	1924	85	2	9	1933	138	5	4	
					1940	173	4	4	N. West
Pacific	1919	122	4		1943	185	4	3	
	1924	177	5	5					
					1933	236	8	7	
Mountain	1919	62	2		1940	292	7	7	Far West
	1924	64	2	3	1943	311	7	6	
Foreign	1919	270	10		1933	429		12	
	1924	439	12		1940	420		9	Foreign
					1943	252		5	

* Totals in U.S. for the three years respectively are 3047, 3956, and 4708.

† Totals in U.S. and possessions and foreign for the three years respectively are 3476, 4376, and 4960.

affiliation of all economists who can benefit and who can contribute to the activities of the Association, and also to place our publications in the hands of libraries and other subscribers where they can be of greatest use. Much can be done from the Secretary's Office by publishing the information booklet and by voluminous correspondence, but far more effective in adding names to our membership and subscription rolls is the individual solicitation of our 4,000 members.

Geographical Distribution. Professor R. B. Westerfield, in his Secretary's Report for 1924 (page 138 of the 1925 *Proceedings*) presented an interesting analysis of the geographical distribution of our members and subscribers for

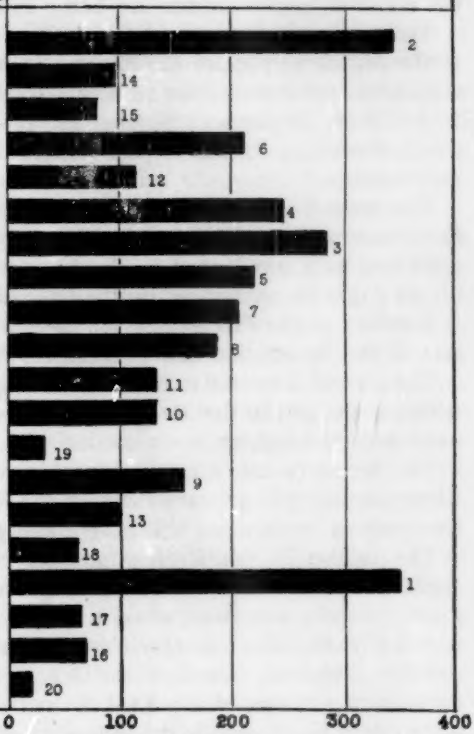
the years 1919 and 1924. The substance of this analysis is shown in the table on page 460, which shows also a similar analysis for the years 1933, 1940, and 1943. (Figures are taken from last page of 1942 *Directory* and from Secretary's Reports.)

Although Professor Westerfield's geographical division differs from the one followed today, it can readily be seen that the bulk of our members and sub-

AMERICAN ECONOMIC ASSOCIATION

Classification of Members by Fields of Specialization

Group	1942	1943	1944	1945	Total
1	285	18	20	23	346
2	78	4	7	7	96
3	52	12	12	3	79
4	172	10	12	17	211
5	81	9	8	15	113
6	199	14	21	13	247
7	238	20	13	13	284
8	151	14	34	21	220
9	172	13	9	12	206
10	144	9	17	14	184
11	95	14	10	12	131
12	99	9	13	10	131
13	26	1	1	3	31
14	117	12	10	14	153
15	84	4	5	6	99
16	47	2	6	5	60
17	280	23	21	25	349
18	52	3	2	5	62
19	51	8	3	6	68
20	13	3	1	2	19



SOURCE: 1942 *Directory* AND SUPPLEMENTS

scribers are found in the Eastern and Central states, and the same is true of the membership distribution. The shift of members to Washington, D.C., and vicinity largely accounts for the increased percentages 1943 over 1940 in the Northeast and Southeast groups.

Classification of Members. The accompanying exhibit, Classification of Members by Fields of Specialization, shows groups of members by subject-matter classes described and listed in the 1942 *Directory* and numbers are

given of the names found in that volume and in the supplements for 1943, 1944, and 1945 (found tipped in, in the *Proceedings* for those years). These indicate first choices and only roughly represent members interested or who can claim competence in these respective fields. The distribution does, however, give a good idea of which fields attract a following, and over a period of years, trends undoubtedly would be shown. Figures at the end of the bars indicate ranking by size. The fields of labor, theory, and international trade seem to have experienced the largest growth during the past year.

Publications. Members are referred to the Report of the Acting Managing Editor for an account of the activities of that office and the Board of Editors. In July, 1944, the Executive Committee granted Professor P. T. Homan leave of absence to accept an important assignment in London. During this interval the editorial responsibilities are being assumed by Professor Fritz Machlup.

The volume of *Papers and Proceedings* appeared as usual as a supplement to the March number of the *Review.* It consists of 401 pages of papers and discussions presented at the 56th annual meeting held in Washington, January 20-23, 1944, 28 pages of minutes and reports of officers and committees, 12 pages of announcements of past publications, and 16 pages of *Directory* of new members.

The special symposium of papers presented at the annual meetings on *Implemental Aspects of Public Finance,* also edited by the Secretary, was published as a supplement to the June number of the *Review.* This volume of 138 pages fas authorized by the Executive Committee.

Reprints of the *Proceedings* (minutes and reports) are distributed to officers of the Association and to members desiring separate copies.

The annual information booklet was re-edited. The expense of printing this leaflet is charged to the Membership Extension Fund since its chief use is to meet general inquiries in connection with new applications for membership.

The Secretary also composes the biographical sketches of past presidents whose photographs appear serially in the *Review.* Items of interest concerning the subjects of sketches will be gratefully received.

The section in the *Review* entitled, "Vacancies and Applications," still contains only a few items, but these announcements have proved useful, and greater activity may be expected in the period of transition ahead.

A.L.A.-A.E.A. Book List for European Libraries. At the request of the International Relations Board of the A.L.A. our Association, along with other constituent societies of the A.C.L.S. and S.S.R.C., assumed responsibility for preparing a list of significant and outstanding books published in the United States during the war years (since 1938), when conditions curtailed the purchase and shipment of books to libraries abroad. The task was undertaken in the Secretary's Office and the Secretary wishes to express his thanks and the thanks of the Association to 150 members who aided directly in submitting titles of books, in rating them, and reviewing lists of ratings. Many others were indirectly involved in this service. I regret that there is no way of giving them due recognition. A descriptive note on this worth-while project appears in the March number of the *Review.* A few mimeographed copies of the A.L.A.-

A.E.A. Book List, 690 titles rated and classified by subject-matter groups, are available at the office of the Secretary and will be sent on request to members while the supply lasts. A limited number of copies have been disposed of to nonmembers at a price of fifty cents per copy. The Secretary is informed that these lists are to be published by the American Library Association, Subclassifications, however, are not to be included.

The Blakiston Volumes. Volume II, *Readings in Business Cycle Theory,* is the second volume in the series of republished articles on economics selected by a committee of the Association. The selections in this volume were made by a committee of which Gottfried Haberler was chairman. An extensive classified bibliography of articles, compiled by Professor Harold M. Somers, is included.

A report of the activities of the General Committee on Republications is submitted by Howard S. Ellis, Chairman of that Committee. (See page 501.)

Committee Activities. This has been a year of marked activity on the part of certain committees; e.g., the Committee on Undergraduate Teaching of Economics and the Training of Economists (Horace Taylor, Chairman), the Executive Subcommittee on Association-Sponsored Consensus Reports (C. O. Hardy, Chairman), the Exploratory Committee on Honors and Awards to American Economists (S. H. Slichter, Chairman), the Committee on Foreign Honorary Members (J. H. Willits, Chairman), and the Committee on Economists in the Public Service (M. A. Copeland, Chairman).

Committee on Undergraduate Teaching of Economics and the Training of Economists. A preliminary report of the Committee requesting additional powers and specific authorization in formulating its plans of operations was submitted to the Executive Committee on December 9, 1944. Copies were also sent to all persons recommended as members of eight exploratory subcommittees; and of a panel of general consultants. Possible improvements in the undergraduate teaching of economics and in the training of economists with primary reference to the long-run postwar period is a subject of such general interest and is of such a complex nature that widespread consideration of this subject is being sought. A meeting of the Committee was held in Washington on February 1, and while not fully attended, progress was made. Two additional subcommittees were established and the report of the Committee submitted by Horace Taylor to the Executive Committee on February 2 was unanimously approved. The Committee was authorized to go ahead along the lines indicated and was requested to submit a further report of progress, together with a budget of financial needs, at the spring meeting of the Executive Committee. Members interested in the work of the Committee will find papers relating to one aspect of its work in the session on "Interdepartmental Course in the Social Sciences" in this volume.

Subcommittee on Association-Sponsored Consensus Reports. At the spring meeting of the Executive Committee (see minutes) the members of the Committees on Focusing Informed Opinion on Public Questions, F.D. Graham, (Chairman), were invited to present in person a modification of their previous report (see *Proceedings* of January, 1944, meeting in the March supplement

of *Review*, pages 424-425). A subcommittee was authorized to study and repoit further recommendations and it was decided that experiments with the idea be carried on in connection with the annual program.

Memoranda on the Graham proposal were submitted to C.O. Hardy by members of the Committee (J. S. Davis, J. W. Bell, W. L. Crum, and L. L. Watkins), and a report was drafted by Mr. Hardy (see page 502).

Two experiments in method and procedure were scheduled for the annual meeting: (1) on "Agricultural Price Supports and Their Consequences" (E. J. Working, Chairman), (2) "The Function of Government in the Postwar American Economy" (James W. Bell, Chairman). An ad interim report on these experiments may be found on pages 422.

Committee on Honors and Awards. A resolution submitted by President Davis at the opening meeting of the Executive Committee led to the appointment of a committee "to inquire into the types, purposes, and effects of systems of honors and awards maintained by various American scientific, engineering, and professional societies and to explore the possible desirability of instituting some specific scheme in the A.E.A." The report submitted by this Committee (S. H. Slichter, Chairman), may be found on pages 494.

Committee on Honorary Members—Foreign. The matter of foreign honorary members has in times past been left in the hands of the Executive Committee though on occasion special committees have been appointed. In 1925-26 a committee was appointed "to consider methods of expressing the appreciation of the Association of the work of distinguished scholars in this field," but the Secretary finds no record of any report having been made. At the spring meeting of the Executive Committee a Committee was appointed to make recommendations at the annual meeting. Members of the Executive Committee were asked to take the initiative in making suggestions to this Committee by mail. The report of this Committee (J. H. Willits, Chairman), was accepted by the Executive Committee at the February meeting. Some of the names recommended were acted upon, others held for subsequent consideration, and that part of the report relating to the criteria for selecting foreign honorary members (see page 493) was referred to a new committee for consideration.

Committee on Economists in the Public Service. A report of progress was submitted by M. A. Copeland, chairman of this Committee, with a draft of the final report still under consideration. Pending completion of this report, and of developments which may lead to the establishment of a more inclusive social science committee, the life of the Committee was extended.

The session on "Social Scientists in the Public Service," scheduled on the annual program, in which several members of this Committee were to participate, produced nothing for the record. The session was planned as a panel discussion and no papers were prepared for presentation.

In connection with the work of this Committee another matter may be of interest to our members. A communication from the Director of the National Roster asked our co-operaion in locating and preparing guidance materials for various separation centers and hospitals of the Army and Navy. These materials are apparently to be used in connection with the placement of professionally quali-

fied civilians and demobilized soldiers and sailors who have had previous training in professional and technical fields. Specifically, we were asked for help in the preparation of one of a series of folders or brochures describing some of the professional fields with which the National Roster is actively concerned. Since virtually no materials seem to be available on the various professional fields, the Secretary tried his hand at describing the profession of "economist," the educational and experience qualifications of the professional economist, the major functional activities performed, and at listing the major branches or specialties into which the field of economics is divided. This description was forwarded with the suggestion that the matter be referred to our Committee on Economists in the Public Service. The names of a number of economists were suggested for consultation, many of whom subsequently submitted comments, and alternate drafts of the description of economics and occupational summary have been prepared. It is not clear what is to become of this new Roster activity but the attempt to describe what a professional economist is and what he does is an interesting undertaking.

A.C.L.S. and S.S.R.C. Our representatives on these Councils are invited to attend meetings of the Executive Committee and efforts are being made to bring about a closer relationship between our Association and the learned Councils of which we are a constituent member. There is a growing feeling that mutual interests can be better served with organizational collaboration than through the loose connection that has existed in the past. The establishment of a committee on research of the Association has been suggested. This and other proposals are being explored. Informal reports of the work of the councils have been made to the Executive Committee by F. H. Knight and S. E. Leland.

In the reorganization of its committee structure, F. H. Knight, of the American Economic Association, was selected Chairman of a new Committee on Fellowships and Grants-in-aid which combines two previous committees. This group and a Committee on Assistance to Publication are responsible for regular or routine disbursement of Council funds in the aid of scholarship; large special projects are in charge of the Advisory Board and the Executive Committee.

Allied Social Science Associations. Since the meetings of the secretariat of these associations depends upon joint meetings with the other associations of the social group, its activities have been dormant during the period of suspension of these meetings. Your Secretary, as chairman of the secretariat, still has in his custody the sum of $829.44 which is available for use if, as, and when such joint meetings are reconvened.

Committees appointed by the President.

Nominating Committee
- Edwin G. Nourse, Chairman
- Norman S. Buchanan
- Donald H. Wallace
- Arthur R. Upgren
- John V. Van Sickle
- Aryness Joy Wickens

General Committee on Republications
Howard S. Ellis, Chairman
Karl Anderson
James W. Bell

Committee on Undergraduate Teaching of Economics and the Training of Economists
Horace Taylor, Chairman
Paul M. O'Leary
Joseph J. Spengler
W. Blair Stewart
Albert B. Wolfe

Committee on Honorary Members—Foreign
Joseph H. Willits, Chairman
Joseph A. Schumpeter
Jacob Viner

Committee on Local Arrangements
John Donaldson
Milton Gilbert

Committee on Elections
John W. Boatwright, Chairman
Earl J. Hamilton

Exploratory Committee on Honors and Awards to American Economists
Sumner H. Slichter, Chairman
Frederick C. Mills
Edwin G. Nourse
James W. Bell

Subcommittee on Association-Sponsored Consensus Reports
Charles O. Hardy, Chairman
William L. Crum
Leonard L. Watkins
Joseph S. Davis
James W. Bell

The following member represented the Association on the occasion indicated:

Inauguration of Russell David Cole as president of Cornell College
J. Harold Ennis

Mailing list.

The use of the mailing list was granted to the following:

Blakiston Company
Columbia University
For use in revising their mailing lists
Royal Institute of International Affairs
To inform members about *International Affairs*

Committee for Economic Development
To send their Tax Plan to members

First Service Corporation, St. Paul, Minnesota
To send the Twin Cities Plan, *Postwar Taxes*

Science Service
Special offers to members

U. S. Treasury Department
To send excerpts from Henry Morgenthau's speech

National Bureau of Economic Research
To send copy of Wesley C. Mitchell, *Economic Research and the Needs of the Times*

It is with regret that the names of the following persons have been removed from our active membership list, notice of their deaths having been received during the year:

Paul Barnett
Norris A. Brisco
Martin Clark (Life Member)
George C. Cox
John O. Downey
D. W. Emerson
Donald M. Erb
A. Graziani
Harold Jones
Edwin J. Kunst
Walter E. Lagerquist
James Q. Newton
Sylvester Schattschneider
A. Laurence Smith
William D. Thompson
Henry H. Titsworth

Respectfully submitted,
JAMES WASHINGTON BELL, *Secretary*

EXHIBIT I

PUBLICATION COSTS

	Proceedings			Handbooks		
Year*	Pages Number of	Copies Number of	Cost	Number of Pages	Number of Copies	Cost
1930	222	4,300	$1,353.91			
1931	308	4,300	1,919.18	88	4,200	$ 589.54
1932	316	4,200	1,819.75			
1933	216	4,000	1,284.85	88	3,900	522.71
1934	232	3,700	1,192.91			
1935	248	4,000	1,347.88			
1936	360	4,200	2,037.90	58	4,100	454.36
1937	344	4,300	1,922.03			
1938	200	4,500	1,234.10	112	4,500	1,118.84†
1939	288	4,600	1,785.91			
1940	444	4,900	2,658.12	108	5,000	822.58
1941	479	5,200	3,294.45			
1942	548	5,400	3,909.79	208	5,500	1,775.72†
1943	535	5,500	3,652.56			
1944	470	5,800	3,350.40			
	144	5,900	1,215.22‡			

* This is the year of publication and pertains to the meeting of the preceding year. The figures are published in the subsequent year.
† "Who's who" volumes.
‡ Part of papers presented at annual meeting published as supplement to June number.

Exhibit II

Members and Subscribers

	Total 12/11/43	Added	Removed	Gain or *Loss*	Total 12/11/44
Annual members	3,630	445*	290†	155	3,785
Junior members	62	44‡	47**	*3*	59
Family members	36	16	3	13	49
Complimentary members	21	—	1	*1*	20††
Life members	33	—	1	*1*	32
Honorary members	16	—	—	—	16
Subtotals	3,798	505	342	163	3,961
Subscribers	1,293	376	136	240	1,533
Totals	5,091	881	478	403	5,494

* Includes 31 junior members changed to annual.

† Resigned, 74; nonpayment of dues, 144; died, 14; lack of address, 48; changed to junior members, 10.

‡ Includes 10 annual members changed to junior.

** Includes 31 junior members changed to annual.

†† Includes 10 complimentary members who do not receive the publications of the Association.

REPORT OF THE ACTING MANAGING EDITOR OF THE AMERICAN ECONOMIC REVIEW FOR THE YEAR ENDING DECEMBER, 1944

The last annual report on the *Review* called the attention of the members to the seriously reduced flow of acceptable manuscripts. In spite of the reduced gross product of our article writing economists, the net product in terms of articles published in the *Review* was not diminished. This was not at the expense of quality; on the whole the material published in 1944 was on a satisfactorily high level. The reduction of the "spontaneous" supply of acceptable manuscripts was offset through the compensatory device of increasing the "induced" supply: selected members were commissioned to write articles on selected topics. Moreover, some spontaneously supplied manuscripts were subsequently improved in quality through co-operation between counseling editors and persuasible authors. The results were often gratifying.

In 1943 the December issue had been the slimmest of the year, which led to the prognosis of a reduced 1944 volume. In fact, the 1944 volume exceeded the 1943 volume by one page of text (and a few pages of advertisements), and the December issue was the biggest of the year. If I dare make any forecast, I should say that I expect a 1945 volume of the same size, provided the necessary budget is authorized by the Executive Committee.

A statistical tabulation of the contents of the *Review* in 1944 is shown here with the corresponding figures for the preceeding year. All figures are, as in previous years, exclusive of the proceedings and other supplements edited by the Secretary.

	1944		*1943*	
	Number	*Pages*	*Number*	*Pages*
Leading articles	23	460	26	416
Communications	21	89	30	94
Book reviews	120	283	124	292
Classified list of new books		63		69
Classified list of periodical articles		35		39
Classified list of dissertations		15		24
Notes		29		39
		974		973

The articles, communications, and book reviews were contributed by 147 persons. To these persons the editors are grateful for their participation in a joint product of high quality.

This product costs slightly more than was estimated last year. The following statement shows the actual expenses[1] in 1944 along with those of 1943 and with the budget estimate for 1944.

[1] The expenses shown in the statements of the Managing Editor do not tally exactly with the audited statements of the Treasurer because (a) the latter are for a fiscal year ending December 11 rather than the calendar year, and (b) the Treasurer and Auditor, at the time they close the books, do not know the cost of the December issue and have to include estimates based upon the cost of the September issue, whereas the Managing Editor, at the time of his report, may have received the bill for the December issue, or at least the data needed for a closer estimate.

	Budget 1944	*Actual 1944*	*Actual 1943*
Printing (paper, postage, reprints, etc.)	$8,000.00	$8,747.97[a]	$8,186.63[b]
Editorial	2,500.00	2,500.00	2,500.00
Clerical	3,250.00	3,186.50	2,944.15
Supplies	250.00	195.71	239.67
Contributors	1,600.00	1,582.25	1,739.25
Contingency	400.00		
	$16,000.00	$16,212.43	$15,609.70[b]

[a] This figure contains one estimated item: the cost of reprints from the December issue has not yet been billed. It is estimated that the part of the bill which is to be borne by the Association will be about $50.00. This amount was included in the figure shown in the statement.

[b] This figure is revised because last year's statement contained an estimate of the cost of the December issue, the bill for which had not been received at the time. The actual bill fell a little short of the estimate (by $92.86).

Actual expenses in 1944 exceeded the budget estimate by $212.43 or 1.32 per cent. We needed this and all of the contingency appropriation of $400.00, plus a few savings in other items, for higher printing expenses: $8,747.97 instead of an estimated $8,000.00. That we spent so much more for printing than we had estimated is simply explained by the fact that we had expected a reduced volume but found that we got enough material for a volume of unreduced size. I trust that the Executive Committee will agree with me that it would not have been wise to forego the publication of acceptable manuscripts merely in order to stay within a lower budget estimate. That the printing expenses in 1944 exceed also those of 1943 by $561.25, with the cost of printing unchanged and the size of the volume almost the same, calls for another explanation. This explanation is found chiefly in two factors. One is the cost of the inserts with the portraits of former presidents, which was included in the 1944 figure but not included in the 1943 figure. The other is the increased number of copies printed: 23,700 copies in 1944 against 22,500 copies in 1943.

For presenting a budget estimate for 1945, I must count on a further increase in the number of copies, at least by another 300 because 6,000 copies are now printed of each issue. Planning for a volume of unreduced size, I should perhaps ask for $8,800 for printing expenses. But I have some misgivings concerning such a drastic increase in the budget and propose an appropriation of $8,500 for this item. After all, I have still the usual contingency appropriation, this time proposed in an amount of $350, to fall back on if necessary. The budget for the year 1945 is thus recommended as follows:

Printing (paper, postage, reprints, etc.)	$ 8,500.00
Editorial	2,500.00
Clerical	3,300.00
Supplies	250.00
Contributors	1,600.00
Contingency	350.00
	$16,500.00

The total is $500 higher than last year. The increase is needed because we cannot count on repeating last year's savings in the items "Clerical" and "Supplies" and it would be against the principles of conservative budgeting to count in advance on using the whole "Contingency" appropriation in order to make both ends meet. I think that the adoption of my recommendation will permit the *Review* in 1945 to live within its budget.

I wish to remind the Executive Committee that it has made a contingent appropriation for publication of a supplement during 1945 on some timely subject of economic policy. Thus far no such project has been started; for a while I contemplated the preparation of a Symposium on International Monetary Plans, but then I found that the subject was so adequately treated in periodicals and other publications that additional treatment in the form of a supplement of the *Review* was not called for.

Last year the Managing Editor was authorized to introduce a change in the format of the *Review* if the paper shortage should require such an action. It was not necessary to make use of this authorization, and the *Review* will be published in 1945 with the format unchanged.

The Board of Editors consisted during 1944 of Professors Albert G. Hart, Dale Yoder, George N. Halm, Mable Newcomer, Norman S. Buchanan, and Paul Samelson. The terms of Hart and Yoder have expired, the terms of Halm and Miss Newcomer expire in 1945, and the terms of Buchanan and Samuelson expire in 1946. All six board members have given splendid co-operation; their counsel was often invaluable and my debt of gratitude to them is great.

Professor Paul Homan, your Managing Editor, was given a leave of absence, effective July 1, 1944, so that he could serve this government and the United Nations as an official of the UNRAA with headquarters in London. I was greatly honored that the Executive Committee entrusted me with his functions in the management of the *Review*. If it is the pleasure of the Committee, I shall carry on as Acting Managing Editor until Homan's return. According to recent correspondence, he may cut his stay in London somewhat short of what was originally intended, and may come back some time this spring. But no decision to this effect has been reached.

Respectfully submitted,

FRITZ MACHLUP, *Acting Managing Editor*

REPORT OF THE TREASURER OF THE ASSOCIATION FOR THE YEAR ENDING DECEMBER 11, 1944

The financial condition of the Association and the operating results for the current fiscal year are detailed in the Auditor's Report and the exhibits found there showing the balance sheet of assets and liabilities and the statement of income and expenses. A few explanations and comparisons may serve to clarify our present financial status and to see it in perspective.

The best measure of our financial strength is the unappropriated surplus or net balance of income over expenditures remaining after all other liabilities and special funds are accounted for. The figure at the end of the current fiscal year (December 11, 1944) stands at $68,346. This surplus has been accumulated without interruption since 1920. (See "A.E.A. Surplus, 1909-45.") It represents a substantial financial backlog to tide us over future exigencies.

Current operations for the year resulted in a net surplus of $6,133. (See accompanying table on "Comparative Results for 1943 and 1944.") In order to

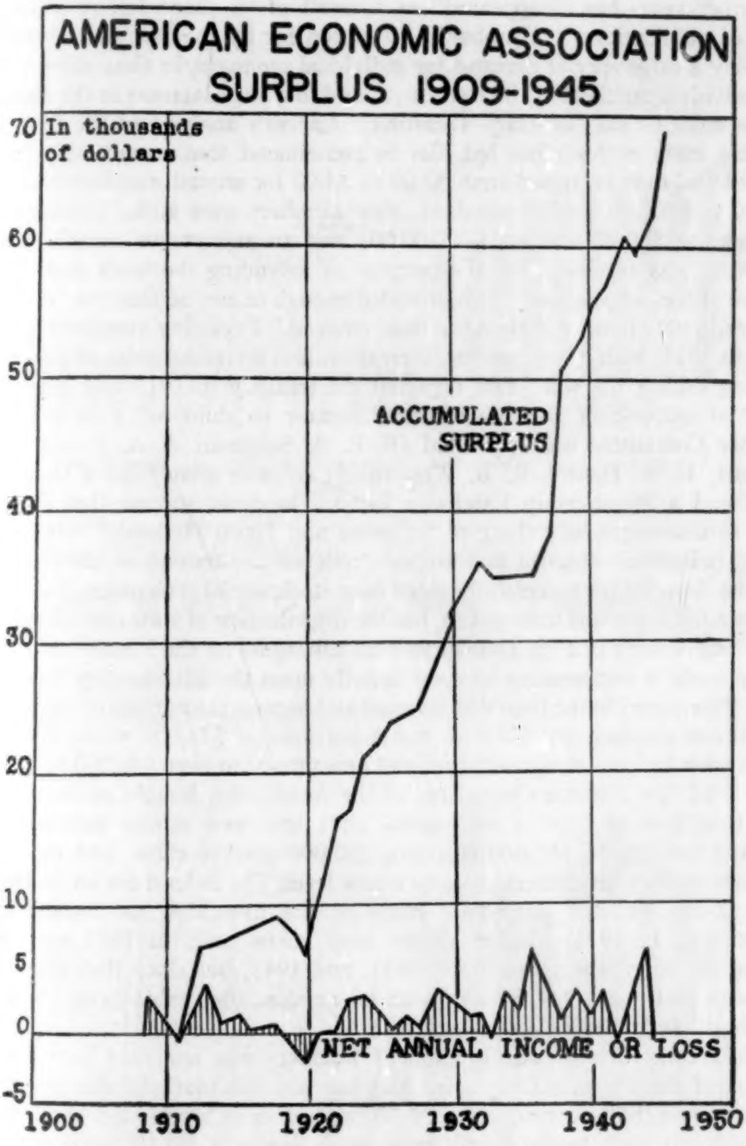
COMPARATIVE RESULTS OF OPERATIONS FOR 1943 AND 1944

Income	1943	1944	Increase or *Decrease*
Dues	$18,484	$19,241	$ 757
Interest and dividends	3,132	3,299	167
Net profit or loss on sales of securities	594	2,018	1,424
Subscriptions other than from members	6,402	7,329	927
Sales of copies	1,160	1,528	368
Advertising	1,505	1,788	283
	$31,278	$35,206	$ 3,928
Expenses			
Administrative and operating	$ 7,540	$ 9,113	$ 1,573
Publication	20,939	19,958	*980*
	$28,479	$29,071	$ 593
Net income	$ 2,798	$ 6,133	$ 3,335

determine the net costs of publication, the auditor's analysis shows publication income as a deduction from publication expense. If, however, we compare income from all sources with expenses of all sorts, the results appear as indicated in the table. Expenses were heavier than last year, but income was even larger. Income exceeded last year's figure by $3,928, the increases having been derived from all sources; viz., dues, interest and dividends, and publication income (subscriptions, sales of copies, and advertising) as well as profits on sales of securities. Expenses for administration and operation were higher than those of last year chiefly on account of increased office salaries, expenses of the annual meeting and of the Executive and other committees. Publication expenses show a decrease despite the additional outlay for the June supplement of the *Proceedings* on "The Implemental Aspects of Public Finance." The decrease shown in the auditor's figures is only apparent, however, since the printing cost estimates for the December, 1943, number of the

Review exceeded actual costs by $880, which makes the 1943 figure look larger and the 1944 figure look smaller by that amount.

The Association's finances have not always been in a wholesome condition. In its early history the Association was run on a hand-to-mouth basis.

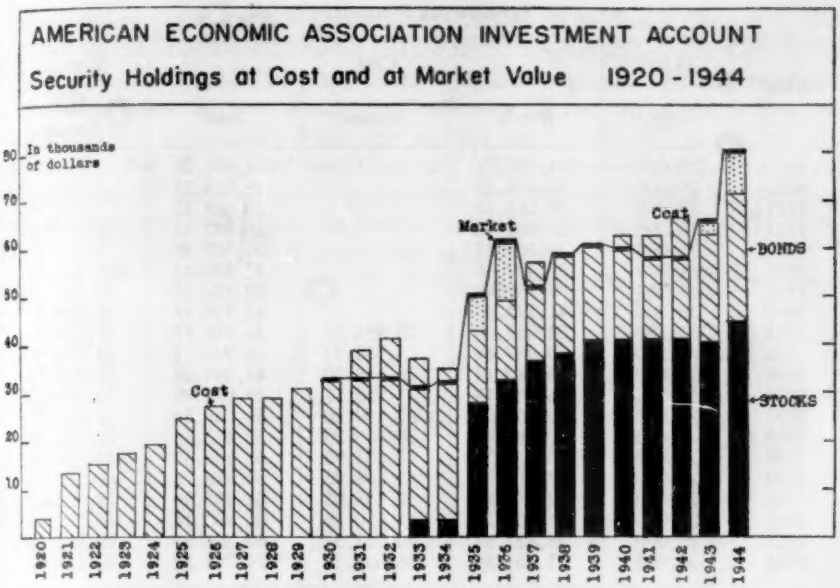


Figures for Unappropriated Surplus or Deficit from Annual Auditors' and Treasurers' Reports, 1910-1944

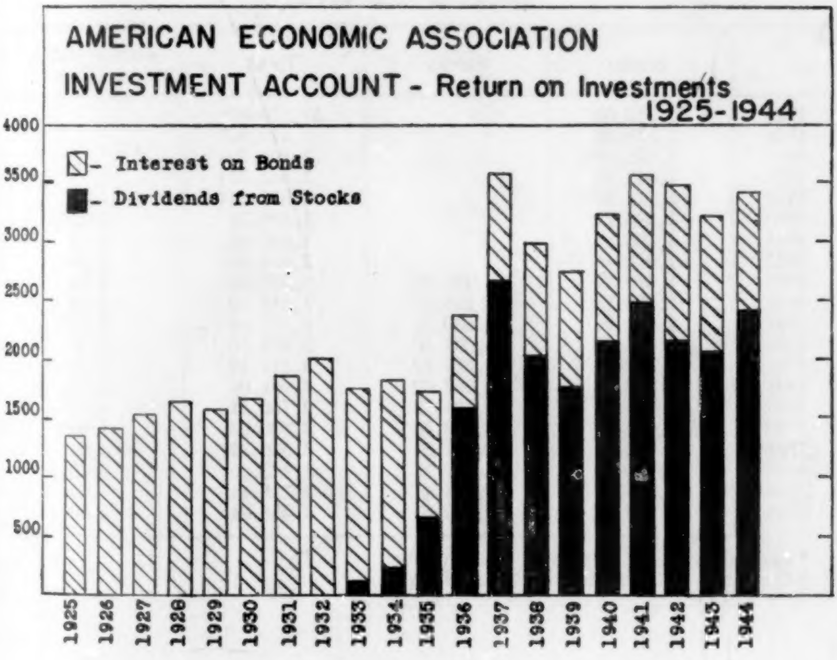
Publications were the chief expense and these were paid for out of dues and subscriptions, although on several occasions deficits were met by resorting to the generosity of loyal members and friends of the Association. Twice during the recent history the Association was virtually bankrupt; namely, 1910-11 and 1919-20. In 1911 T. N. Carver reported "that the surplus accumulated in former years has disappeared" as a result of "a sharp falling off in the sales of publications . . . probably accounted for by the fact that there was formerly a large special demand for individual monographs than there is now for individual numbers of the *Review* . . . and to a large increase in the expenses of the office of the Secretary-Treasurer." Carver's analysis of the fixed and variable costs of his office led him to recommend that membership be increased and dues be raised from $3.00 to $5.00 for annual members and from $50.00 to $100.00 for life members. New members were added (fourteen life members at $50.00 and ten at $100.00) and an anonymous contribution of $1,000.00 was received "for the purpose of extending the work and the influence of the Association." This provided enough money so that the "deficit of the year [1912] was a little more than covered." Declining membership from 1912 to 1915, with a slow growth thereafter, and increased costs of paper and printing during the war years depleted the treasury in 1919 and 1920. The financial outlook of the Association "became so dubious" that a Special Finance Committee was appointed (E. R. A. Seligman, A. A. Young, W. F. Gephart, D. R. Dewey, R. B. Westerfield) to raise money for a Guarantee Fund and a Membership Extension Fund. The great success that attended their efforts—especially those of Seligman and Jacob Hollander, who served during Seligman's absence in Europe—"relieved the tension of the treasury" and the Association successfully tided over its financial difficulties. No formal membership drive was undertaken, but the organization of state committees and the effective work of F. S. Deibler and his colleagues on the Membership Committee made it unnecessary to draw heavily upon the Membership Extension Fund. The money in the fund was invested and became the nucleus of our present investment account. By 1925 we had a portfolio of $25,000 worth of bonds, which grew by capital appreciation and new money to over $40,000 by 1932.

In 1933 the Finance Committee of the Association bought stocks for the first time and in 1935 a substantial shift into new stocks increased our security holdings to $43,000 cost and $50.000 market value, and thereafter the income from investments rose to a new level. The federal tax on undistributed profits was the immediate cause of the new high for income from investments in 1937. Market values were below costs in 1937 and again during the early war years, 1940, 1941, and 1942, but since then they have exceeded costs—in 1944 by a substantial margin. (See exhibits on "Security Holdings" and "Return on Investments.")

The composition of our investment holdings was analyzed in the 1941 Report of the Finance Committee and has not substantially changed since. The Committee has considered a 50-50 proportion of stocks and bonds to be desirable but our holdings still bear more nearly a 60-40 relationship of stocks to bonds. The policy of the Committee has never been one of trading



For Figures See Treasurer's Reports, *Proceedings*, 1943, p. 415 and Previous Reports



Figures from Treasurer's Reports, *Proceedings*, 1944, p. 416, and Previous Years

Investment Portfolio

Year	At Par	Cost			Market
	Bonds	Bonds	Stocks	Total	Stocks and Bonds
1925	$25,000	$24,601.75		$24,661.75	
1926	27,000	26,623.25		26,623.25	
1927	29,000	26,688.45		28,688.45	
1928	29,000	28,633.45		28,633.45	
1929	31,000	30,569.48		30,569.48	
1930	31,000	32,439.48		32,439.48	$32,635.40
1931	39,500	39,134.48		39,134.48	32,307.44
1932	40,500	41,134.48		41,134.48	33,239.70
1933	33,500	32,962.48	$3,954.23	36,916.71	31,522.50
1934	31,500	30,989.48	3,954.23	34,943.71	34,714.00
1935	16,000	15,280.48	28,114.50	43,394.98	50,338.72
1936	17,000	16,260.13	33,712.57	49,972.70	62,991.00
1937	20,000	19,160.91	37,399.20	56,560.11	52,064.75
1938	22,000	20,180.95	38,302.20	58,483.15	58,598.88
1939	22,000	20,039.57	41,155.95	61,195.52	61,529.38
1940	25,000	22,519.80	41,155.95	63,675.75	60,553.88
1941	25,000	22,439.81	51,155.95	63,595.76	58,606.11
1942	27,000	24,651.12	41,556.06	66,207.18	58,211.88
1943	28,000	23,822.54	40,071.31	63,893.85	66,012.12
1944	30,000	25,731.51	46,033.81	71,765.32	81,844.01

Return on Investments

	Bonds	Stocks	Total	Rate of Return on Cost
1925	$1,350.00		$1,350.00*	
1926	1,410.00		1,410.00*	
1927	1,524.70		1,524.70†	
1928	1,642.77		1,642.77†	
1929	1,575.44		1,575.44†	
1930	1,695.21		1,695.21	5.22%
1931	1,886.81		1,886.81	4.82
1932	2,014.36		2,014.36	4.89
1933	1,679.49	$ 108.57	1,789.06	4.84
1934	1,593.13	218.07	1,811.20	5.18
1935	1,022.96	680.70	1,703.66	3.92
1936	801.77	1,597.63	2,399.40	5.00
1937	884.87	2,689.62	3,574.49	6.31
1938	928.04	2,063.02	2,991.06	5.11
1939	978.79	1,781.52	2,760.31	4.51
1940	1,037.56	2,182.46	3,220.02	5.06
1941	1,088.97	2,497.35	3,586.32	5.64
1942	1,306.49	2,186.17	3,492.66	5.28
1943	1,133.97	2,094.47	3,228.44	4.90
1944	992.67	2,410.57	3,403.24	4.60

* Estimated income for year.
† Certificate of deposit interest included.

in and out of the market. We have aimed, rather, to hold only those securities which we consider businessmen's risks bearing a good yield. The Committee meets periodically and the portfolio is analyzed frequently. The average rate of return during the past decade has been over 5.0 per cent on both cost and market and is at present 4.6 per cent on cost and 4.3 per cent on market.

Messrs. Roy C. Osgood and Charles C. Wells deserve the thanks of the Association for their unselfish, painstaking, and efficient service in contributing so effectively to the financial health of the Association.

Respectively submitted,

JAMES WASHINGTON BELL, *Treasurer*

REPORT OF THE FINANCE COMMITTEE

November 28, 1944

Executive Committee,
American Economic Association,
Evanston, Illinois.

GENTLEMEN:

Herewith are reports of the bond, preferred stock, and common stock holdings of the American Economic Association as of the close of business November 28, 1944. These reports include cost of securities together with the value of those held on December 11, 1943. The total cost of our present holdings, together with the market value as of November 28, 1944, as well as the market value of securities held on December 11, 1943, is as follows:

	Cost of Holdings 11/28/44	Market Value or Last Sale 12/11/43	11/28/44
Bonds	$31,987.76[1]	$26,272.75	$36,778.75
Stock	46,033.81	40,891.37	52,790.26
Total	$78,021.57	$67,164.12	$89,569.01[1]

[1] Between November 28 and December 11, the date of the Auditor's Report, $4,000 Chicago, Milwaukee and St. Paul and $5,000 Chicago and Northwestern were sold at $3,593.40 and $4,517.60, respectively. Therefore, to reconcile the above figures with those found in the Auditor's Report, the cost of these securities must be deducted from the first column and the selling price from the last.

During the past fiscal year the following securities were sold or presented for payment when called:

	Cost	Sale or Call	Net Profit or Loss
$1,000 Interlake Iron Corp. Convert. Deb.	$ 980.63	$1,025.00	$ 44.37
2,000 Southern Railway Co., 1st Consol. Mtg.	2,070.40	2,190.00	119.60

In this year we added to our holdings:

$3,000	Illinois Central Railroad, St. Louis Div., 3% Bonds, Due 1951
3,000	Southern Pacific Co., 4½% Bonds, Due 1969
5,000	Chicago and Northwestern General Bonds, 4%, Due 1987
3,000	Central New England Ry., 1st Mtg., 4% Bonds, Due 1961
25 Shares	Champion Paper and Fibre 6% Cum. Pfd. Stock
50 Shares	Houston Lighting and Power Com. Stock

Listed below are the bonds, preferred stock, and common stock holdings of the Association, showing cost and market values as of December 11, 1943, and November 28, 1944.

Bonds

Amount	Issue	Int.	Due	Cost	Value Market or Last Sale 12/11/43	11/28/44
$2,000	Central Illinois Electric and Gas Co., 1st Mtg.	3¼	1964	$2,010.00	$2,124.00	$2,025.00
3,000	Central New England Ry., 1st Mtg.	4	1961	2,760.00		2,876.25
5,000	Chicago and Northwestern Ry., Gen.	4	1987	3,881.25		4,575.00
4,000	Chicago, Milwaukee and St. Paul R.R.	4	1989	2,375.00	2,800.00	3,550.00
3,000	Chicago, Terre Haute and South-eastern Ry., 1st and Ref.	5	1960	2,012.12	2,220.00	2,850.00
1,000	Erie Railroad Co., 1st Consol. Mtg.	4	1959	883.26	1,017.50	1,052.50
2,000	Grand Trunk Western Railways Co., 1st Mtg. 50-year	4	1950	1,855.45	2,035.00	2,100.00
2,000	Pennsylvania Railroad Co., Deb.	4½	1970	1,913.03	1,960.00	2,077.50
1,000	Pennsylvania Railroad Co., Gen. Mtg., Series D	4¼	1981	986.50	1,061.25	1,180.00
2,000	Shawinigan Water and Power Co., 1st Mtg.	4½	1967	1,801.15	2,080.00	2,092.50
2,000	St. Louis and Iron Mountain Southern Ry., 1st Mtg.	4	1933	935.00	1,840.00	2,005.00
3,000	U. S. Defense Bonds, Series G	2½	1954	3,000.00	3,000.00	3,000.00
3,000	U. S. Government	2	1953/51	3,000.00	3,000.00	3,000.00
3,000	Illinois Central R.R., St. Louis Div.	3	1951	2,212.50		1,770.00
3,000	Southern Pacific Co.	4½	1969	2,362.50		2,625.00

Stocks

Number of Shares of Preferred Stock		Cost	Value Market or Last Sale 12/11/43	11/28/44
25	Champion Paper and Fibre, 6% Cum. Pfd.	$2,725.00		$2,862.50
14	Glidden Co.	735.00	$ 644.00	707.00
10	Household Finance Corp., 5%	903.00	1,102.50	1,097.50
25	International Harvester Co.	3,686.63	4,225.00	4,500.00
Number of Shares of Common Stock				
25	Chesapeake and Ohio Railroad Co.	1,309.07	1,156.25	1,215.63
55	Commonwealth Edison Co.	1,525.51	1,326.87	1,588.13
20	Erie Railroad Co.	279.13	195.00	240.00
50	General American Transportation Corp.	3,084.30	2,037.50	2,600.00
100	General Electric Co.	2,738.19	3,737.50	3,937.50
50	General Motors Corp.	2,057.47	2,512.50	3,075.00
58	Glidden Co.	1,635.72	1,073.00	1,392.00
50	Houston Lighting and Power	3,237.50		3,450.00
50	Kroger Grocery and Baking Co.	1,297.22	1,593.75	1,850.00
25	Liggett and Myers Co., B	2,018.13	1,600.00	1,937.50
50	Link-Belt Co.	2,524.15	1,800.00	1,950.00
50	Mesta Machine Co.	2,007.37	1,375.00	1,750.00
50	J. C. Penney Co.	2,878.28	4,825.00	5,562.50
50	Procter and Gamble Co.	2,459.72	2,818.75	2,825.00
50	Standard Brands, Inc.	852.62	1,512.50	1,425.00
50	Standard Oil of California	2,097.27	1,806.25	1,793.75
50	Union Carbide and Carbon Corp.	2,867.88	3,200.00	3,956.25
100	Wayne Pump Co.	3,114.65	2,350.00	3,075.00

Respectfully submitted,

Roy C. Osgood, *Chairman*
Charles C. Wells
James Washington Bell

REPORT OF THE AUDITOR

December 21, 1944

Executive Committee,
American Economic Association,
Evanston, Illinois.

DEAR SIRS:

In accordance with instructions we have examined the accounts and related records of the American Economic Association for the fiscal year ended December 11, 1944, and now submit our report thereon together with the following exhibits:

Balance Sheet—December 11, 1944	Exhibit 1
Statement of Income and Expenses for the Fiscal Year Ended December 11, 1944	Exhibit 2

Results from Operations

Net income for the fiscal year ended December 11, 1944, was $6,133.57 compared with a net income of $2,798.10 for the preceding fiscal period as shown in the following summary:

Particulars	Year Ended Dec. 11, 1943	Year Ended Dec. 11, 1944	Increase *Decrease*
Income:			
Dues	$18,484.52	$19,241.88	$ 757.36
Interest and dividends	3,132.16	3,299.42	167.26
Profit on sales of securities (net)	594.09	2,018.72	1,424.63
Total income	$22,210.77	$24,560.02	$2,349.25
Expenses:			
Administrative and other operating expenses	$ 7,540.70	$ 9,113.93	$1,573.23
Publication expenses	20,939.77	19,958.97	*980.80*
Publication income	*9,067.80*	*10,646.45*	*1,578.65*
Total expenses	$19,412.67	$18,426.45	*$ 986.22*
Net income	$ 2,798.10	$ 6,133.57	$3,335.47

The increase in dues reflects the increase in membership of the Association during the period under review. Membership at December 11, 1943, and at December 11, 1944, as reported by the Secretary, was as follows:

Classification	Number of Members Dec. 11, 1943	Number of Members Dec. 11, 1944
Members:		
Regular	3,630	3,785
Junior	62	59
Family	36	49
Life	33	20
Honorary	16	32
Complimentary	21	16
Totals	3,798	3,961

Interest on bonds owned was accounted for; dividends received on stocks were compared with amounts reported in published records of dividends paid. Bonds costing $9,307.28 were sold during the year for $11,326.00, resulting in a gain of $2,018.72.

Administrative and other operating expenses, as detailed in Exhibit 2, aggregated $9,113.93 compared with $7,540.70 for the previous fiscal period. This difference was due largely to an increase in the amount of office salaries and of annual meeting expenses.

Net publication expense, as shown in the following summary, amounted to $9,312.52 for the current period as compared with $11,871.97 for the preceding period:

Particulars	Year Ended Dec. 11, 1943	Year Ended Dec. 11, 1944	Budgetary Estimates for 1944
Expenses:			
Printing of—			
Review	$ 9,440.84	$ 7,772.70	$8,000.00
Proceedings	3,652.56	4,565.62	—
Editor's honorarium	2,500.00	2,500.00	2,500.00
Payments to contributors	1,855.25	1,582.25	1,600.00
Editorial clerical salaries	3,045.90	3,194.50	3,250.00
Editorial supplies and expenses	404.15	261.49	250.00
Sundry publication expenses	41.07	82.41	—
Total expenses	$20,939.77	$19,958.97	
Less—Income:			
Subscriptions, other than from members	$ 6,402.00	$ 7,329.99	
Sales of copies	1,160.17	1,528.46	
Advertising	1,505.63	1,788.00	
Total income	$ 9,067.80	$10,646.45	
Net publication expense	$11,871.97	$ 9,312.52	

The December, 1944, issue of the *Review* had not been printed at the time of our examination. The expense of printing 6,000 copies has been estimated by the Banta Publishing Company. The following estimated costs are included above:

Printing expense	$2,400.00
Reprints	100.00
Total	$2,500.00

Financial Condition

Condensed balance sheets of the Association at December 11, 1943, and December 11, 1944, are compared below:

Assets	Dec. 11, 1943	Dec. 11, 1944	Increase *Decrease*
Cash on deposit and on hand	$ 8,063.04	$14,462.33	$ 6,399.29
Receivables, net	1,118.92	1,249.24	130.32
Inventories	1,394.97	227.90	*1,167.07*
Furniture and fixtures, net	598.36	517.80	*80.56*
Investments, at cost—			
Bonds	23,822.54	25,731.51	1,908.97
Stocks	40,071.31	46,033.81	5,962.50
	$75,069.14	$88,222.59	$13,153.45
Liabilities			
Accounts payable	$ 3,000.00	$ 2,500.00	$ *500.00*
Allied Social Science Associations	842.41	829.44	*12.97*
Income tax withheld from employees	283.21	77.17	*206.04*
Unearned income	3,573.28	11,577.73	8,004.45
Membership extension fund	1,920.13	1,654.57	*265.56*
Fund for proposed secretariat	35.00	35.00	—
Life memberships	3,225.00	3,200.00	*25.00*
Surplus—			
Balance at beginning of period	59,217.01	62,190.11	2,973.10
Net income for period	2,798.10	6,133.57	3,335.47
Transfers from life memberships	175.00	25.00	*150.00*
	$75,069.14	$88,222.59	$13,153.45

Cash on deposit was satisfactorily reconciled with balances confirmed directly to us by the depositories.

The receivables of the Association were not confirmed by correspondence with the debtors. In view of the Association's past experience, the reserve for doubtful accounts appears to be adequate to cover losses.

Changes in the investment accounts were vouched by examination of broker's invoices and other supporting data. Securities held were confirmed directly to us by the State Bank and Trust Company of Evanston, Illinois, custodian for the Association, and by Mullaney, Ross & Company who were in possession of $3,000 Chicago, Terre Haute and Southeastern Railway Company bonds.

Insofar as we were able to ascertain, all liabilities of the Association at December 11, 1944, are reflected in the accompanying balance sheet and the Secretary has represented to us that to the best of his knowledge all liabilities are disclosed.

We wish to take this opportunity to express our appreciation of the courtesies and co-operation extended to our representatives during the course of the examination.

Very truly yours,

DAVID HIMMELBLAU & CO.
Certified Public Accountants

EXHIBIT 1

AMERICAN ECONOMIC ASSOCIATION
BALANCE SHEET—DECEMBER 11, 1944

Assets

CURRENT ASSETS:			
Cash in bank and on hand—			
State Bank and Trust Company, Evanston		$10,015.76	
Madison-Crawford National Bank, Chicago		4,416.57	
Petty cash		30.00	$14,462.33
Receivables—			
Interest accrued on bonds		$ 273.95	
Membership dues		320.00	
Unpaid subscriptions		47.50	
Review advertising		503.38	
Publication sales		200.91	
Sundry		73.50	
Total receivables		$ 1,419.24	
Less—Reserve for doubtful accounts		170.00	1,249.24
Inventories—			
Stamped envelopes		$ 226.90	
Economic Essays—at nominal value		1.00	227.90
Total currents assets			$15,939.47
INVESTMENTS AT COST:			
Bonds		$25,731.51	
Stocks		46,033.81	71,765.32
FURNITURE AND FIXTURES (less reserve for depreciation)			517.80
			$88,222.59

Liabilities, Funds and Surplus

CURRENT LIABILITIES:			
Accounts payable		$ 2,500.00	
Allied Social Science Associations		829.44	
Income tax withheld from employees		77.17	$ 3,406.61
UNEARNED INCOME:			
Membership dues		$ 6,736.65	
Subscriptions		4,541.08	
Advertising		300.00	11,577.73
MEMBERSHIP EXTENSION FUND			1,654.57
FUND FOR PROPOSED PERMANENT SECRETARIAT			35.00
LIFE MEMBERSHIPS AND SURPLUS:			
Life memberships		$ 3,200.00	
Unappropriated surplus—			
Balance December 11, 1943	$62,190.11		
Transferred from life memberships	25.00		
Net income for year ended December 11, 1944 (Exhibit 2)	6,133.57	68,348.68	71,548.68
			$88,222.59

EXHIBIT 2

American Economic Association
Statement of Income and Expenses
Fiscal Year Ended December 11, 1944

Particulars				*Amount*
Income:				
Dues—				
Regular, junior and family members			$18,970.63	
Subscribing and contributing members			271.25	$19,241.88
Investments—				
Interest and dividends—				
Interest on bonds		$ 992.67		
Dividends		$ 2,410.57		
		$ 3,403.24		
Less—Custodian's fee		103.82	$ 3,299.42	
Net gain on sales of bonds			2,018.72	5,318.14
Total income				$24,560.02
Expenses:				
Administrative and other operating expenses—				
Secretary's salary		$ 1,500.00		
Office salaries		4,132.36		
Postage		539.56		
Stationery and supplies		328.93		
Telephone and telegraph		95.89		
Insurance premiums		200.00		
Exchange on checks		59.15		
Provision for depreciation		80.56		
Annual meeting		897.42		
Executive committee expenses		779.17		
Other committee expenses		203.06		
American Council of Learned Societies—dues		75.00		
Miscellaneous		222.83	$ 9,113.93	
Publication expenses—				
Printing of:				
Review		$ 7,772.70		
Proceedings		4,565.62		
Editor's honorarium		2,500.00		
Payments to contributors		1,582.25		
Editorial clerical salaries		3,194.50		
Editorial supplies and expenses		261.49		
Sundry publication expenses		82.41		
Total publication expenses		$19,958.97		
Less—Publication income:				
Subscriptions, other than members	$7,329.99			
Sale of copies	1,528.46			
Advertising	1,788.00	10,646.45	9,312.52	
Total expenses				18,426.45
Net income (Exhibit 1)				$ 6,133.57

REPORT OF THE COMMITTEE ON UNDERGRADUATE TEACHING OF ECONOMICS AND THE TRAINING OF ECONOMISTS

December 16, 1944

Executive Committee,
American Economic Association,
Evanston, Illinois.

GENTLEMEN:

At your meeting in New York on April 7, 1944, you authorized the appointment of a committee to consider possible improvements in undergraduate teaching of economics and in the training of economists with primary reference to the long-run postwar period. Your decision to do this grew out of discussions and correspondence initiated last year by President A. B. Wolfe, the purposes of which are strongly supported by the current administration of President Joseph S. Davis. The widespread concern with educational policies and programs made it seem that the present is an auspicious time for such a committee to begin its work. It was understood that this committee would need to commence by attempting to define and plan its own program as to scope and duration.

The Committee on Undergraduate Teaching of Economics and the Training of Economists was constituted in May, 1944, as follows: Horace Taylor (Columbia), Chairman; Paul M. O'Leary (Cornell); Joseph J. Spengler (Duke); W. Blair Stewart (Reed); and Albert B. Wolfe (Ohio State). It was anticipated that a Panel of Consultants, to advise and otherwise aid the Committee, would be constituted through decisions reached by the President and the Secretary of the Association and the newly established Committee. It was expected that the Committee would in formulating its plans of operation need to request additional powers and specific authorizations. This letter is offered as a report on the Committee's work to this time and its plans for further work.

What has been done to the present can be presented as a series of steps:

1. *Preliminary Discussion by Correspondence*

Following the constitution of this Committee, the chairman initiated by correspondence a discussion by members of the Committee of what in their several judgments constituted the important areas to be studied and the most promising methods of operation. As a result of this correspondence certain issues (the areas of which will appear more specifically at a later point in this report in the form of topics to be explored by subcommittees) appeared to be generally agreed upon as being of paramount importance. It was, however, extremely difficult to work out by correspondence any appropriate *modus operandi*. It was because of this difficulty that a steering subcommittee (to be described below) was organized and met late in October.

2. *Liaison with American Political Science Association*

The A.P.S.A. has a committee on education in political science with Professor Benjamin F. Wright, of Harvard University, as Chairman. Because

of the similarity of the problems to be studied and of the overlapping of our two fields, it was suggested by President Davis that our Committee seek as far as possible to co-operate and collaborate with this committee of the A.P.S.A. Chairman Wright received our advances most cordially. Results to this time are that a joint section meeting on education has been planned for next February 2, at the Washington meetings. The topic of this section meeting will be "Interdepartmental Courses in the Social Sciences" with papers dealing with the courses along these lines that have been established for a number of years at Chicago and Columbia. Professor Wolfe was invited to, and attended as a representative of this Committee, a meeting of the A.P.S.A. committee in Chicago in October. It is planned that our two committees will meet together during the Washington sessions and gain such benefit as can be from our total body of experience and plans.

3. *Meeting of Steering Subcommittee*

As a means of working out a clearer method of procedure, the Chairman proposed that a subcommittee consisting of Messrs. O'Leary, Spengler, and himself meet in New York to plan the next steps in the Committee's work. This meeting and its financing were approved by the Executive Committee and the meeting was held on October 26 and 27. The subcommittee believed it necessary to find out first the objectives, methods, and organization of work in economics in the colleges and in the other divisions of higher education most directly related to the undergraduate study of economics. For this purpose the steering group proposed the establishment of a number of exploratory subcommittees and nominated members of the Association to be appointed on these subcommittees. A list of subcommittees and their proposed memberships is attached and is made a part of this report. It also was proposed that the members of these subcommittees constitute, in association with several other members of the Association nominated by President Davis and Secretary Bell, a Panel of Consultants of this Committee. A list of the names of those consultants nominated by Messrs. Davis and Bell is attached and is made a part of this report. The steering subcommittee believed that our Committee on the Teaching of Economics and the Training of Economists should be responsible for supervising the work of these several subcommittees. The steering subcommittee also recommended that the results of the work of these exploratory subcommittees, consisting of reports of findings and conclusions, should be published in a supplement to the *American Economic Review*. The steering subcommittee reported to the members of its Committee and to the President and Secretary of the Association. All of these interested persons have approved the recommendations of the steering subcommittee.

As a result of this action it becomes necessary for the Committee to request approval of the Executive Committee for the appointment of these subcommittees and the expansion of our Committee's functions which the appointment of these subcommittees implies.

A related question that is raised for the Executive Committee is that of

financing the activities of these subcommittees. We have not been able to estimate the cost of the work that will need to be done and yet it is clear that the preparation of questionnaires and other materials, postage, etc., will run into some bit of expense. There will be further expense if the Committee's recommendation that the reports of these subcommittees be published as a supplement to the *American Economic Review* is accepted.

Since the meeting of the steering subcommittee, it has been recommended by President Davis that one additional subcommittee on the teaching of economics in the schools be added. Along with its request for authorization of the list of subcommittees, our Committee requests authorization also to appoint a subcommittee to explore this subject.

It is our opinion that much would be gained if the several subcommittees were appointed as soon as possible and were able to offer some preliminary outlines of their work to our Committee prior to, or at the time of, the February meeting in Washington. We urge, therefore, that the appointment of these subcommittees be authorized even if a decision concerning their financing must necessarily be postponed.

It is hoped that a session of the full membership of our Committee and as many as possible of our consultants can be held in Washington on February 1, and that plans can be developed further at that time. The Chairman has announced this meeting to the members of the Committee.

Submitted for the Committee,
HORACE TAYLOR, *Chairman*

PROPOSED EXPLORATORY COMMITTEES ON UNDERGRADUATE EDUCATION IN ECONOMICS

The first three of the following topics, being rather general in nature, are developed in some detail through appended subtopics. The others are more specialized, and it is preferred that the designated committees develop the topics as they deem best. In all cases, the suggestions offered here are intended only to show what the topic was conceived to deal with, and it is hoped that the several committees will work out the topics in accordance with their own judgments.

In addition to the exploratory work assigned to these several subcommittees, the members of each subcommittee constitute a special Panel of Consultants to aid the Committee on the Teaching of Economics and the Training of Economists on matters coming within the designated jurisdiction of that subcommittee.

1. *Elementary Courses in Economics*

Objectives; organization of material; administration (small sections, lectures and quiz sections, etc.); number of terms and of weekly hours; college year in which it is taken; extent of specialization according to professional aims of students (special sections for pre-engineering students, pre-law students, etc.); observed results of course on students (as to use of nomenclature, use of tools of analysis, etc.); degree of satisfaction with existing course; plans for

revision or change; ways in which size, location, or other special feature of a particular college affects the kind of course it offers.

Bruce M. Knight, Dartmouth College, Chairman
Mary Jean Bowman, Iowa State University
Harry G. Brown, University of Missouri
E. E. Hale, University of Texas
William W. Hewett, University of Cincinnati

2. *Interdepartmental Introductory Courses in Social Sciences*

Educational theory and objectives; scope of work done how organized for course purposes; administration (small sections, lectures and quiz sections, etc.); extent of interdepartmental collaboration and form of interdepartmental organization; college year or years and hours per week; observed effects of course on students (stimulation of curiosity and interest; preparation for further study in terms of a body of knowledge; understanding of concepts and principles and use of tools of analysis); degree of satisfaction of staff with existing course; plans for revision or change ways in which size, location, or other special feature of a particular college affects the kind of course it offers.

Louis M. Hacker, Columbia University, Chairman
Robert Hatten, Ohio State University
Melvin M. Knight, University of California
Maynard C. Krueger, University of Chicago
Thomas H. Robinson, Colgate University

3. *The Undergraduate Economics Curriculum and Related Areas of Study*

Economics as a liberal art; economics in relation to the study of a profession; undergraduate economics in relation to graduate study; extent of desirable specialization by undergraduates in economics and possible waste due to overspecialization; economics and related fields of undergraduate study; different conditions and problems of education in economics as between independent colleges and colleges within universities; social change and trends of "demand" for education as they affect prospective curricula in economics.

Calvin B. Hoover, Duke University, Chairman
Kenneth E. Boulding, Iowa State College
Frank H. Knight, University of Chicago
Lorne T. Morgan, University of Toronto
Overton H. Taylor, Harvard University

4. *The Training of Teachers of Economics*

Extent to which graduate students are treated and trained as potential teachers; methods used to discover and develop teaching abilities of college staffs; qualities needed by teachers as to both specialization and broadness of background.

Leon C. Marshall, American University, Chairman
W. L. Crum, Harvard University
Ralph L. Dewey, Bureau of Agricultural Economics
Harold Rowe, Brookings Institution
George J. Stigler, University of Minnesota

5. *The Study of Economics in Schools of Business*

Relation of the study of economics to the objectives of professional training in business; collegiate economics as a prerequisite to business-school study; programs of economics study within the curricula of schools of business.

Robert D. Calkins, Columbia University, Chairman
E. J. Brown, University of Arizona
Sumner H. Slichter, Harvard University
Leonard L. Watkins, University of Michigan
John B. Woosley, University of North Carolina

6. *Undergraduate Economics in Preparation for Careers in Public Service and in Business Administration*

These fields as offering careers; problems of indoctrination as to social consciousness and professional responsibility; special educational requirements for such work.

Edward S. Mason, Harvard University, Chairman
C. F. Christiansen, University of Indiana
Joel Dean, University of Chicago (this year at Columbia)
Ben W. Lewis, Oberlin College
Amos E. Taylor, Bureau of Foreign and Domestic Commerce

7. *Treatment of Especially Able Students of Economics*

Extent to which capacities of gifted students are utilized; methods of discovering special aptitudes; seminars, honors courses and other devices designed exclusively for superior students.

Clair W. Wilcox, Swarthmore College, Chairman
Corwin D. Edwards, Northwestern University
Elmer D. Fagan, Stanford University
Ralph Hon, Southwestern College
James G. Smith, Princeton University

8. *The Teaching of Economics in the Schools*

The members of this subcommittee are still to be designated.

Panel of General Consultants of the Committee on the Undergraduate Teaching of Economics and the Training of Economists

John D. Black, Harvard University
R. H. Blodgett, University of Illinois
R. T. Bye, University of Pennsylvania

G. J. Cady, Northwestern University
J. M. Clark, Columbia University
M. A. Copeland, War Production Board
Ira B. Cross, University of California
H. F. Fraser, Swarthmore College
F. B. Garver, University of Minnesota
F. D. Graham, Princeton University
E. H. Hahne, Northwestern University
S. E. Howard, Princeton University
John Ise, University of Kansas
W. K. Kiekhofer, University of Wisconsin
F. H. Knight, University of Chicago
S. E. Leland, University of Chicago
H. L. McCracken, Louisiana State University
E. M. Patterson, University of Pennsylvania
G. T. Schwenning, U. S. Office of Education
Jacob Viner, University of Chicago
R. B. Westerfield, Yale University
Dale Yoder, University of Minnesota

SUPPLEMENTARY REPORT

COMMITTEE ON THE UNDERGRADUATE TEACHING OF ECONOMICS AND THE TRAINING OF ECONOMISTS

February 2, 1945

Suggested Procedure for Exploratory Subcommittees

These suggestions are based very largely upon views expressed by Professor Joseph J. Spengler.

It is proposed that each subcommittee chairman prepare a draft outline of a questionnaire aimed to reveal facts and opinions relevant to and significant for the work of his subcommittee. This tentative form of questionnaire would then be circulated among the members of the subcommittee for their criticisms and suggestions, and on the basis of these, the chairman would revise and amend the questionnaire. It then would be circulated among those persons to whom the questions are directed and the returns would be tabulated. These tabulations would be sent to each member of the subcommittee concerned, to any members of the panel of general consultants whose opinions might be desired, and to the chairman of this committee. Members of the panel of general consultants would provide any information or opinions that the chairman of the subcommittee might ask, or do so to the best of their abilities.

Each subcommittee member would prepare a 3,000- to 5,000-word report on the matters covered by his topic, or concerning a phase of it assigned him by his chairman, making such use as need be of the factual materials with which he has been furnished. These reports would be submitted to the chairman of the subcommittee. He would then compare the several reports, discover similarities and dissimilarities in opinion, and report back to the members of his subcommittee on the dissimilarities with the aim of composing them. If no dissimilarities remained, a homogeneous final report would then be prepared by the chairman. Or, if dissimilarities persisted, a report incorporating these as minority or alternative views could be prepared. This report, or these reports, would then be sent to the subcommittee members for perusal and comment, and after receiving this comment, the chairman would prepare a final report and submit it to this committee.

This committee would then go over the several reports with the aim of discovering gaps and overlaps, preparing appropriate cross references, etc. At the next meeting of the Association (1946), a full day of meetings could be devoted to this whole set of reports. If this were made part of the program, each subcommittee chairman would present not his final report, but a succinct résumé of its findings and conclusions. There would be provision for discussion either from the floor (which seems preferable in this case) or by appointed discussants. The reports could then be published either as part of the *Proceedings* or preferably as an extra publication of the Association with authorship accredited to each of the several subcommittees.

This committee would hold itself available throughout the year to handle

inquiries, questions of overlap, etc. Each committee chairman should go to work as soon as he is informed that his committee members have agreed to serve. If any members do not agree to serve, new members should be appointed at once. The members of the panel of general consultants will hold themselves available for consultation by any of the subcommittees and by this committee. They may be asked to give the final report, or any part of it, critical study before final publication.

For the Committee,
HORACE TAYLOR, *Chairman*

REPORT ON HONORARY MEMBERS

The following considerations are suggested as the basis upon which foreign economists may be elected to honorary membership in the American Economic Association:

1. The aim should be to keep the membership select and professional. Elections should be limited in number and reserved to those of real merit and professional achievement. Only those who command high respect as scholars should be considered.

2. Weight may also be given to other forms of leadership within the profession, such as elevation of standards, protection of freedom of thought, development of young men, etc.

3. Weight may also be given to the dignified and honorable spread of economic doctrine to nonprofessional circles and the application of such doctrines to world affairs; this should not be interpreted as including status attained for reasons other than qualifications as an economist; i.e., as an administrator or politician.

4. The term "economist" is understood to embrace "economic historian."

5. Canadian economists should not be considered as eligible for honorary membership, not because of a lack of distinguished candidates, but because Canadian scientists are not considered as foreigners.

6. Economists of foreign nationality should not be elected while resident in this country.

Respectfully submitted,
JACOB VINER
JOSEPH A. SCHUMPETER
JOSEPH H. WILLITS, *Chairman*

[On the above basis, the Committee recommended a panel of names for the consideration of the Executive Committee.—EDITOR.]

REPORT OF THE EXPLORATORY COMMITTEE ON HONORS AND AWARDS

I. *The Experience of Other Societies*

The Committee began its inquiry by seeking information concerning the honors and awards given by various scientific and professional societies and their experience with honors and awards. Late in the spring the following letter was sent to a large number of these societies:

Dear Sir:

The American Economic Association has appointed an Exploratory Committee on Honors and Awards with the following mandate:

1. To inquire into the types, purposes, and effects of systems of honors and awards maintained by various American scientific, engineering, and professional societies.
2. To explore the possible desirability of instituting some specific scheme in the American Economic Association.
3. To report to the Executive Committee with positive or negative recommendations.

The members of the Committee would appreciate very much learning the experience of your Society in granting of honors and awards. We would appreciate your help in giving us information on the following points:

1. Does your society confer honors or awards upon men who have made distinguished contributions to science?
2. If so, what procedures are followed in selecting recipients of honors and awards?
3. What are the criteria used in selecting recipients of honors and awards?
4. Have the methods of selecting candidates for honors and awards resulted in choices which have met widespread approval in the profession?
5. Is there evidence that the granting of awards or the conferring of honorary distinctions have had any definite effect in stimulating distinguished work?
6. Have honorary distinctions been granted in such numbers as to lose distinctive significance, or because of extreme limitation in numbers or dissatisfaction with the basis of selection, have awards caused friction or dissatisfaction with the whole system?

The members of our Committee will be deeply grateful to you for your help in giving us the benefit of your experience with honors and awards.

A total of 47 replies was received. Thirty-seven of the societies reported that they confer honors and awards. The following is a summary of the replies:

1. Types of honors and awards granted.

(a) medals with cash prizes and without
American Association of Applied Psychology
American Association of Economic Entomologists
American Chemical Society
American College of Physicians
American Geographical Society
American Institute of Chemical Engineers
American Institute of Mining and Metallurgical Engineers
American Medical Association
American Society of Civil Engineers
American Society of Mechanical Engineers
The Electro Chemical Society, Inc.
The Franklin Institute
Geological Society of America
Institute of Radio Engineers
Society of American Foresters

(b) cash prizes
Acoustical Society of America
Actuarial Society of America
American Chemical Society
American Institute of Mining and Metallurgical Engineers
American Mathematical Society

American Society of Civil Engineers
American Society of Mechanical Engineers
Institute of Aeronautical Sciences
Institute of Radio Engineers
The Mathematical Association of America

(c) certificates, scrolls, plaques, embellishments
American Institute of Aeronautical Sciences
American Institute of Mining and Metallurgical Engineers

(d) scholarships
American College of Physicians
American Institute of Architects
American Institute of Chemical Engineers
American Society of Civil Engineers

(e) membershhip distinctions

1. honorary and corresponding:
Aero-Medical Association of the United States
American Entomological Society
American Folklore Society
American Geological Society
American Historical Association
American Horticultural Society
American Institute of Architects
American Physical Society
American Psychiatric Association
American Society of Civil Engineers
American Society of International Law
American Sociological Society
American Statistical Society
The Electro-Chemical Society, Inc.
Rural Sociological Society
Society of American Foresters

2. Fellows:
Aero-Medical Association of the United States
American Association of Applied Psychology
American Institute of Architects
American Statistical Association
Institute of Aeronautical Sciences
Institute of Radio Engineers
Society of American Foresters

3. Life member:
American Psychological Association
American Sociological Society

2. The principal criteria employed for selecting persons to receive honors and awards.

(a) general scholarship and achievement (usually measured in terms of scholarship, research production, administrative services).
Aero-Medical Association of the United States
American Association of Applied Psychology
American Entomological Society
American Folklore Society
American Geographical Society
American Horticultural Society, Inc.
American Institute of Architects
American Institute of Mining and Metallurgical Engineers
American Psychiatric Association
American Society of Civil Engineers
American Society of Mechanical Engineers
American Sociological Society
American Statistical Society
Electro-Chemical Society, Inc.
The Franklin Institute
Geological Society of America

Institute of Aeronautical Sciences
Institute of Radio Engineers
Rural Sociological Society
Society of American Foresters

(b) specific achievement, such as the best paper presented at the annual meeting, or research done on a particular problem in the profession.
Actuarial Society of America
American Association of Applied Psychology
American Association of Economic Entomologists
American Chemical Society
American College of Physicians
American Geographical Society
American Institute of Chemical Engineers
American Institute of Mining and Metallurgical Engineers
The Mathematical Association of America
American Mathematical Society
American Medical Association
American Society of Civil Engineers
American Society of Mechanical Engineers
The Franklin Institute
Institute of Aeronautical Sciences
Institute of Radio Engineers

(c) great promise and sample achievement. This criterion is used to encourage younger scholars who are known only to an immediate circle.
Acoustical Society of America
Actuarial Society of America
American Chemical Society
American College of Physicians
American Institute of Architects
American Institute of Chemical Engineers
American Institute of Mining and Metallurgical Engineers
American Society of Civil Engineers
American Society of Mechanical Engineers

(d) length of membership in Society.
American Psychological Association
American Sociological Society

3. Methods of selection. The procedure in selecting candidates for honors and awards is fairly uniform. A standing or special committee receives nominations or applications, goes through a screening process, and submits its recommendations in turn to the executive council, general board, or other governing body of the society. This body may make the final selection or it may submit the candidates to a vote of the membership. Special awards are often made by *ad hoc* committees.

4. Results. There is considerable divergence of opinion concerning the results. Of the 35 societies granting honors or awards, 7 were of the opinion that such honors or awards served as a definite stimulus to distinguished work; 11 replies indicated no such stimulus, although 3 of these were expressions of personal opinion and not based on the experience of the Society. Nineteen of the societies expressed no opinion on this question.

The following are the principal points made in the favorable and unfavorable replies:

Favorable Replies. a. American Sociey of Civil Engineers, grants award for outstanding technical paper:

Our prizes for technical papers, we feel, have been an incentive for excellence in engineering throughout the long history of the Society. . . . One should not expect that conferring

of honorary membership will be an incentive to even greater work on the part of the successful candidate himself. This honor comes more as the culmination of life work. Certainly, however, this honor presented annually in the presence of several hundred of the membership attending the Annual Meeting leaves an impression on young engineers which one might say has a definite effect in stimulating distinguished work. (George T. Seabury, Secretary.)

b. Society of American Foresters, confers honorary membership distinction, Fellow status, and medal for distinguished work:

I can say with great assurance that the Society in conferring membership honors and in awarding our Schlich medal, has had a splendid psychological effect on professional standards. In other words, many practicing foresters apparently are stimulated by the fact that the profession recognizes and honors high standards of practice. (Henry Clepper, Executive Secretary.)

c. American College of Physicians, awards medal for best completed research in internal medicine and research scholarships:

We believe the awards made by this College have had a very definite effect in stimulating distinguished work. Rather great importance has been placed on these awards. (E. R. Loveland, Executive Secretary.)

d. American Psychiatric Association, confers honorary membership on those who "have distinguished themselves by attainments in psychiatry or related sciences or who have rendered signal service in philanthropic effort to promote the interest of psychiatry and mental hygiene."

I cannot say that there is any evidence that the granting of these awards has had any definite effect in stimulating distinguished work, but these distinctions appear at least to have been very helpful in promoting sympathetic understanding between psychiatrists and persons working in related fields. (Winfred Overholser, Secretary-Treasurer.)

Unfavorable Replies. a. American Mathematical Society, awards various prizes for the best memoir in specified fields of specialization:

I do not believe that there is any evidence that the award of these prizes stimulates distinguished work. There are several mathematicians who, on the contrary, have argued that the prizes have a discouraging effect on the work of some of the men who have been "runners-up" for the award. These mathematicians argue that the difference between the memoir judged as first and that placed second is often extremely slight and might well vary, if another committee were making the decision. They state that, after a man has been "runner-up" for an award two or three times, the disappointment is bound to have a discouraging effect on his work. (J. R. Kline, Secretary.)

b. Society for American Archaeology:

The Society . . . was originally set up with a class to be known as Fellows, to be appointed Fellows in recognition of their achievements in the field of archaeology. However, we found that this made for distinction between two classes of members and that it pointed to no good in the future, accordingly we gave up the distinction. It was decidedly unsatisfactory both from the point of view of the hard-working professional, who had perhaps not had opportunity to fulfill the requirements and who saw his colleague, no better trained or equipped than himself, who perhaps had not accomplished as much for the science, awarded the distinction of being a Fellow. It was also unpleasant from the point of view of the amateur from whom after all most of our support has come. (Douglas S. Byers.)

c. Geological Society of America, confers medal for distinguished work in the field:

I doubt if there is any direct correlation since the medal has gone to mature men of proven accomplishment. (H. R. Aldrich, Secretary.)

d. American Geographical Society, confers honorary and corresponding memberships, and medal on the basis of original research for explorations in the field. It was felt that such recognition stimulates work "not more and not less than is true in the case of the granting of honorary degrees by colleges and universities." (John K. Wright.)

e. American Sociological Society, honorary membership conferred by vote of the Society and used primarily to give recognition to scholars outside the United States:

In view of the manner in which Honorary memberships have been handled, there is no likelihood they would have any definite effect in stimulating distinguished work. (Conrad Taeuber, Secretary.)

f. American Association of Applied Psychology, confers medal for outstanding work in experimental psychology:

The recipients are of course complimented and honored, although it is impossible to say that they are stimulated to further effort by the honor. I doubt if anyone does research in the hopes of getting the medal. (Edwin G. Boring.)

g. Institute of the Aeronautical Sciences, confers various awards for distinguished work in specified fields:

In my opinion . . . I cannot conceive of anyone being stimulated by them (the awards) in the same sense as they would be in competition—such as the Guggenheim Safety Award for a fool-proof airplane. (Robert R. Dexter, Secretary.)

h. American Institute of Mining and Metallurgical Engineers, medal awards for technical papers, for distinction as administrative head of enterprise engaged in the production of nonferrous metals, and other specified accomplishments in the field:

My personal opinion is that anyone sufficiently distinguished to earn an award is not stimulated by the possibility of getting one. (A. B. Parsons, Secretary.)

i. American Psychological Association, life membership granted upon reaching age seventy and Association member for twenty years. This classification was set up after the proposal of honorary membership group was turned down by the Association members. The personal feeling of the writer was "that the establishment of such a system [honorary membership] in this day would be a backward step." (Willard C. Olson.)

II. *What the American Economic Association Might Do*

The following types of award might be considered by the American Economic Association:

1. For long, faithful, and useful service to the American Economic Association.

2. For the best paper contributed to the *Proceedings* at a given annual meeting—perhaps with some description of the yardstick to be used in defining "best."

3. For distinguished contributions to the development of the science of economics (without attempting to specify what the contribution was or any specific period during which it was made).

4. For noteworthy contributions to the advancement of the science of economics in a specified period—say the last year or the last five years.

5. For unique and original contributions to the development of the methodology of economics—with a specific period specified or not specified.

The Committee does not believe that it would be advisable to set up an award for long, faithful, and useful service to the Association. The principal instances of such service are likely to arise from the work of the Secretary and the Editor respectively. Certainly the Association will not wish to be backward in showing its appreciation at the appropriate time for such service. The Committee, however, does not believe that it is practicable to plan in advance and in a uniform manner the action which will be most appropriate. The Association would be well-advised, in the judgment of the Committee, to plan the way in which it expresses its appreciation in the light of particular circumstances.

The Committee does not believe that it is practicable to make an award for the best paper contributed to the *Proceedings* at a given annual meeting. The need for speed of action, the short time prospective, and the subjective character of value judgments make such an award difficult in the extreme to administer satisfactorily. There is not likely to be unanimity of judgment concerning the paper most deserving the award. Even if the discussions of the Committee were able to produce unanimous judgment among its members, the decision of the Committee in a high proportion of cases would probably fail to meet the approval of substantial segments of the Association membership.

The next three types of award may be considered together. The differences between these three would be in the time period contemplated and with respect to whether emphasis should be upon methodology, contributions to theory, or contributions to the verification of generalizations and propositions. Again the difficulties encountered are that judgments concerning the value of contributions are likely to differ in important respects. What appear to be "heresies" of today may be judged important and notable contributions ten, twenty, or thirty years hence. This difficulty might be circumvented to some extent by establishing a special class of membership to which thirty or forty members of the Association might be elected. This class of membership might be called "Fellows of the American Economic Association." It has been suggested that such a plan would have more vitality if the body of economists thus honored had some function to perform. For example, something by way of a "Senate" might perform a useful role in performing continuity of policy and stability in the administration of the Association's affairs. In support of this idea is the fact that the Association has increasing demands for the best judgment on who is good in what field and who is good in the general field of economics.

The judgment of the Committee, however, is against recommending the creation of a special class of membership for recognition of distinguished service. The Committee is impressed with the fact that there would probably be a considerable number of marginal cases which would represent differences of opinion. The question of why A was selected and not B would be a perennial one. Furthermore, the Committee believes that there is danger that such a

classification of members might foster the growth of a sort of "elder statesman" point of view which would be bad for the development of economics. Even if the Association sees fit to experiment with a special class of membership, the Committee does not believe that these men should be given the responsibility of providing continuity in the policies of the Association or stability in the administration of its affairs. This responsibility should remain where it now is, in the officers of the Association, including particularly the Executive Committee. If the members believe that more continuity is desirable (and the Committee does not conclude that a problem on this matter has been shown to exist), the matter should be worked out by changing the size of the Executive Committee and the duration of the term of membership on the Executive Committee.

The objective of stimulating or rewarding distinguished work in economics is a worthy one, and the Committee has studied the problem sympathetically and with the hope that a practical way of devising an award or special class of membership might be found. The practical difficulties of reaching a consensus, the unfortunate results of making awards which do not represent a consensus, and the danger that an "elder statesman" psychology would be encouraged, lead the Committee to suspend judgment. These alternatives are stated for the purpose of developing discussion and comment. The Committee is eager to have suggestions concerning an honorary award which might be satisfactorily administered.

Respectfully submitted,
E. G. Nourse
F. C. Mills
J. W. Bell
S. H. Slichter, *Chairman*

REPORT OF GENERAL COMMITTEE ON REPUBLICATIONS

The General Committee on Republications of the American Economic Association desires to report upon the progress of the Blakiston Series of Republished Articles.

The first venture, it will be recalled, was a collection devoted to the *Social Control of Industry,* edited by E. M. Hoover and Joel Dean. In June, 1944, the second volume was published, *Readings in Business Cycle Theory,* edited by Gottfried Haberler with the aid of a score of advisors. This collection has been very well received and there are indications that it will be widely used in the universities and elsewhere.

Early in 1944 the Committee selected as the subject of the next volume, *Readings in National Income and Distribution,* and appointed Bernard Haley as editor. By the middle of the year Haley had completed the initial process of canvassing a list of economists especially conversant with this field, as to the most promising articles for inclusion. The pressure of Mr. Haley's duties in the State Department compelled him at this juncture to ask for help, however, and the Committee requested William Fellner, of the University of California, to carry the undertaking through to publication. Professor Fellner reports currently that he has reached the final stage of securing approval for the selections from the numerous economists with whom he has consulted. A feature of this volume, as of preceding numbers, particularly the second, will be an extensive classified bibliography. The book should make its appearance during the course of the present year.

An extended canvass made by Paul Homan two years ago, while he was still chairman of the Committee, indicated that a collection of articles, particularly those incorporating the newer theoretical developments, in international trade and finance stood very high in the list of preferences. It would therefore seem to be a promising field for a fourth volume. The preface to the volumes has carried and will continue to incorporate an invitation to all concerned to forward suggestions as to future volumes to Professor Bell.

At all junctures the Committee has enjoyed the active co-operation of Professor Fritz Machlup, the adviser on economic publications of the Blakiston firm.

Respectfully submitted,

Karl L. Anderson
J. W. Bell
Howard S. Ellis, *Chairman*

REPORT OF THE COMMITTEE ON ASSOCIATION-SPONSORED CONSENSUS REPORTS

[The following memorandum was prepared by C. O. Hardy, Chairman of a subcommittee of the Executive Committee charged with the responsibility of examining further the proposal of the Committee on the Focusing of Informed Opinion of which F. D. Graham was Chairman. This latter committee, established in compliance with a motion voted at the business meeting held in Washington, D.C., January 6, 1943, submitted a report (see 1944 ***Proceedings***, pages 424-425) together with a supplementary report (not published) to the Executive Committee at its spring meeting in 1944. It was after an extended discussion of this report that the present Committee was constituted: C. O. Hardy, Chairman, W. L. Crum, L. L. Watkins, J. W. Bell, and J. S. Davis. From the memoranda prepared and the correspondence carried on between the members of this Committee, C. O. Hardy drew up his report, which he had planned to submit to the Executive Committee and the annual business meeting of the Association. Since the latter meeting did not take place, that part of he memorandum agreed upon with slight reservations by all the members of the Executive Committee was ordered published in the ***Proceedings*** and is herewith submitted.—EDITOR.]

Before discussing the appropriateness of the Association's engaging in the suggested form of activity, it may be worth while to narrow the discussion by classifying the types of projects which might be set up to fulfill the indicated purpose of bringing the wisdom of economists to bear on current public issues. From the standpoint of length and the amount and kind of work involved in preparation, co-operative research projects may be thrown into three general classes.

1. First, there are projects involving extensive factual research and analysis by a considerable number of economists, with an effort to secure either a consensus, or a set of statements of conflicting views that are mutually acceptable as fair and adequate. Illustrations of such activity include the Macmillan Report, the debt survey made by the Twentieth Century Fund (1934), the report of the National Transportation Committee (1935), and the report of the Gold Delegation of the League of Nations (1930-32).

2. At the other extreme we have brief statements of conclusions on matters of immediate public interest, intended to be signed by large numbers of economists who have not participated in their preparation. Illustrations are the statements on fiscal policy signed by about 100 economists in 1917, the statement on the Bretton Woods proposals now being circulated for signature by members of the Economic Association, various publications of the Economists' National Committee. Publications of this sort aim to inform the public as to the position held by economists rather than to convice them by argument of the soundness of those positions. They are written with a view to a very wide circulation. They are useful where there is a substantial consensus but are sometimes misleading in this respect, since in some cases an equally impressive list of names could be secured for a flier reaching different conclusions if anyone took the trouble to do it.

3. Intermediate between these we have pamphlets of 25 to 75 pages which aim both to educate the reader with regard to the basic facts and principles involved in an issue, and to support a set of policy conclusions, but do not aim to make substantial additions to existing factual knowledge, or, as a rule, to break new ground in the analysis of principles involved. Work done at this level seeks a wider circulation than can be obtained for publications of the type first mentioned and does a more serious educational job than those of the second type. Among such pamphlets are many of those published by the National Planning Association, the Monetary Standards Inquiry of 1943, the series published by the Reserve City Bankers Association in 1935, the Public Policy pamphlets of the University of Chicago, the international financial studies of New York University, and the pamphlet series of several research institutes. Pamphlets of this sort are usually prepared by one or two authors and for some reason have not customarily embodied the consensus of larger groups. I suspect that this is because on the one hand the original preparation is not a big enough job to justify enlisting a co-operative group, such as is needed for studies of the first class mentioned above, while the elaboration of reasons for conclusions makes it less practicable to secure a consensus than it is with brief dogmatic statements of bare conclusions.

Studies of the first class may be eliminated from consideration, for financial reasons if for no other. The Association might bear the publication costs involved in an extensive project of research and analysis like the Macmillan Report, but it could not possibly undertake to finance the preparation of such studies. When they are independently financed the cost of publication is usually smallest of the financial difficulties, so that the Association is not likely to find a useful outlet for its funds in financing studies of this sort. Nor is the staff of a major study, employing full-time workers, likely to find a connection with a professional association particularly helpful.

Nor does it seem to me that the Association ought to be the initiating agency for very brief pleas for public action which state conclusions accepted by the signers without analysis of the underlying issues other than a brief debaters' recital of the case for the affirmative. Projects of this sort are sometimes worth while, but there is no difficulty in private individuals' launching projects of this sort. If the Association officers or an Association committee should launch them, either the Association would be committed in the public mind to sponsorship of the measure advocated, or else it would have to sponsor simultaneous flotation of round robins for and against the same proposal. The latter procedure might work well in cases where the issues are evenly balanced, but if it were done in some cases and not in others, the Association's sponsorship in the latter cases would be more patent than ever. And certainly there would be cases where no Association committee would want to promote a propaganda sheet adverse to the dominant view, particularly if the latter seemed to represent the view of the public authority. For example, in the case of the Bretton Woods proposals, a round robin unfavorable to ratification would be regarded by some Association members as unpatriotic. However, it might be a good idea for the Association to public in the *Review* brief petitions or expressions of attitude on public economic issues which have been

released during the current period, over the signatures of, say, 25 members of the Association. Such publication would add little, if anything, to the current influence of the documents, but the material would, I think, be of interest currently, and still more as part of the record of the history of economics.

The third class of publications referred to above seems to me the only one of the three which ought to be considered seriously if the Association is to be more than a publisher. A pamphlet of 24 to 80 pages on a topic of current interest can be given wider circulation than the report of a major investigation. It is long enough to present views both pro and con, to quote briefly the views of representative economists, and to summarize the reasons for the conclusions arrived at. It is short enough to be read by thoughtful nonprofessional persons, including legislators, and has content enough so that journalists and public speakers can draw on it for presentation in briefer form to their respective audiences. It can also embody the results of a small amount of special research, which is all that time may permit to be done in connection with issues that are pressing for early decision. The publication costs are low enough so that it is easy for interested organizations to finance free distribution to their respective special audiences. Publications of this sort have increased enormously in numbers in recent years, and I believe their usefulness justifies their popularity.

What can the Association's function usefully be in this connection? Leaving aside financial considerations, I think there are three ways in which the Association services might be of value: (1) as a catalyst prodding up its members to be more active in writing at this level than they would be otherwise; (2) in providing publication facilities; and possibly (3) in doing indirectly what the charter prohibits our doing directly—that is, putting the prestige of the Association back of the proposals which the writers endorse. It seems to be agreed, however, that the latter is not our purpose, and that the Association should not abandon its constitutional policy that it takes no position on political issues.

The preparation of a pamphlet which is designed to influence current legislation or administrative action is usually a high-pressure job, because the period is short between the emergency of an issue and the time when some action is taken with regard to it. Frequently a number of such issues crop up at the same time. For instance, in 1933 very timely pamphlets could have been prepared within the space of a few months on such problems as the quarantee of bank deposits, devaluation of the currency, the plow-under feature of agricultural adjustment, the establishment of minimum wages, price maintenance, and the restriction of output, by representatives of industry exercising public authority. In 1941 price control, industrial mobilization, and fiscal policy all called for immediate expression of expert opinion if economists were to exercise the influence to which theoretically they are entitled. At other times, there are few demands for high-pressure work, and more deliberate attention could be given to issues that are likely to arise in the future.

The principal stratum of economic opinion which might be mobilized for such studies by the Economic Association consists of the university professors. The staffs of research institutions already have outlets for their ideas, and

nothing would be gained by diverting their product from the publication programs of their respective institutions over to an Association-sponsored program. To a large extent economists in government service either have outlets through official channels or are stopped from making any substantial contribution through other channels. The university professor, however, except in a few institutions that publish pamphlet series, may have difficulty in finding an outlet for work at the level I have designated above as number three. He can find a publisher for a book or for a magazine article, but commercial publishers are seldom interested in pamphlets, and the professional associations make little provision for publication of material longer than a magazine article. Moreover, even if printing costs are taken care of, the problem of distribution is difficult for an individual. The Association might consider the establishment of a pamphlet series, with a special editor and perhaps an editorial board distinct from that of the *Review*. Solicitation of manuscripts and publication of pamphlets in this series should not imply endorsement by the Association of the conclusions any more than is the case with articles in the *Review*, but only of scholarly approach and substantial character. Such action would be merely a broadening of the present publication policies of the Association and might give it a wider audience as well as increasing the scholarly activity of the membership.

We come now to the distinctive features of the Graham proposal, which are, first, the activity of the Association in originating projects which are pointed directly at public policy, and second, the attempt to secure a consensus of scholarly opinion. As to promotion of such effort by Association committees, I have tried very hard to see how the Association can perform a useful service without violating its charter provision adverse to the taking of official positions, or a sound reason why it should abandon that provision, but my conclusions are stubbornly negative on both points. For the Association to take any quasi-official position on a current political issue implies a consensus much broader than the consensus of individuals who voluntarily sign a joint declaration. The Association has become very largely an organization of specialists, who claim expert competence only in segments of the economic field. With respect to any narrow issue, in most cases the majority, or a very large minority, of the membership are not much better informed than the rest of the educated public. True, many economists have, besides their specialized knowledge, a professional training which equips them to inform themselves and form a sound judgment on economic matters outside their special fields more quickly and surely than, say, a physician or a minister of the gospel of comparable intelligence. But this does not mean that they are much better equipped than other educated people to express an opinion on a concrete proposal without having given it some intensive study. Hence a consensus of the opinions of the professional membership of the Association would be a censensus of intelligent but largely uninformed opinion. Such a consensus is what is really implied in suggestions to circulate conclusions to the entire membership, or to use the prestige of the Association to promote conclusions which have not been circulated. I do not believe there is any way to avoid this implication of commitment if the projects are originated and

organized by the Association through the statement of the problem or the selection of the panel. Nor would the influence of the recommendations be enhanced by an association connection if the association were believed not to be back of them.

It is possible, however, that the implication of Association endorsement I have stated could be avoided by having the publications specifically endorsed by groups of interested members. The pamphlets might be circulated to that section of the membership which has indicated a primary interest in the field and published with the signatures of such as cared to affix them. In a case where there is a substantial consensus, this method might bring it to public knowledge without any implication that anybody not signing the document is a dissenter, since it could be made clear that it has not been circulated to the entire membership. If support is asked from a large group, however, it would clearly not be feasible to publish dissenting footnotes and qualifications. Hence the endorsement should relate only to the conclusions and not necessarily to all the arguments advanced in the pamphlet in support of those conclusions. The sole responsibility for the body of the argument should be on its authors, who should be given criticism and editorial aid by a relatively small board or committee. Both the authors and the panel should be self-selected. Selection by officers of the Association would create endless difficulties. The number of endorsers should be rigidly limited, to avoid the inference that nonsigners are opponents.

The other type of consensus which might be aimed at is the concurrence of a group large enough to be representative, but small enough so that each member can actually contribute to the formulation of the completed document and be given the opportunity to submit an individual statement by way of dissent, qualification, of supplement, either as a footnote or an appendix. For this purpose the group should consist of people who are prepared to give some time and serious study to the subject, although the actual formulation should be the work of one or two people. This sort of consensus would be much more valuable than the other from the standpoint of the advancement of the science, though I suspect it would be less valuable for purposes of propaganda concerning immediate action. Dissenting opinions and qualifications, if numerous, confuse the lay reader, though a small amount of such dissent may sharpen interest and lead to more careful reading.

Professor Watkins has referred to the question of compensation of authors for the work involved in the preparation of manuscripts. Formerly economic research was subsidized chiefly by universities by the payment of salaries for light teaching schedules, without much control over the amount and character of the research that was supposed to accompany the teaching. To a considerable extent this is still done, but it is no longer the chief source of support for research. With the establishment of research institutes with full-time staffs, both inside and outside universities, it became apparent that serious research is an expensive thing, if it is made the main task of competent people. Although it is desirable to encourage the grant of research time to university professors, I doubt the wisdom of Watkins' suggestion that the Association ask universities to grant a further subsidy in the form of abatement in the

teaching load for people who are asked to collaborate in Association-sponsored projects, particularly with the present shortage of teachers.

A number of projects have been financed by the payment of fees to authors who already have full-time jobs, for work done in their "leisure" time, or time abstracted from their main jobs. I believe the Association of Reserve City Bankers paid lump sums for the manuscripts published in its 1935 series, and so did the Monetary Standards Inquiry for the manuscripts in its 1943 series. The Economic and Business Foundation uses a similar method, getting a lecture as well as a manuscript for its fee. The Twentieth Century Foundation paid lump sums for chapters in the debt study of 1934 (and I presume in other studies), but in this case the authors criticized one another's work.

The fee method has the advantage that the sponsoring agency is able to skim off the cream for the cost of the skimming, leaving other agencies to pay for the raising of the cow. Critics may feel that the fees paid in some cases are high in proportion to the value received, but they are certainly low in proportion to the costs of doing such work through employment of full-time people to do the whole job. Doubtless money could be raised for financing such activities, but the administrative load will become considerably heavier if the Association has to collect and disburse funds and account for their use. I think, however, if the Association sponsorship should extend to the preparation of substantial pamphlets, it will have considerable difficulty in getting the work done without paying something for it. Perhaps it need pay no more than a liberal estimate of secretarial and incidental expenses of preparing manuscripts. Economists have some urge to express their views, and opportunities to get paid for it, at the pamphlet level, are relatively infrequent.

Whether it is done by the Association or by some other agency, and regardless of whether it is done by the preparation of documents for publication or by some other technique, I think we do need an inquiry into the extent of disagreement among reputable economists with regard to the subject matter of economics. My own impressions are:

1. There is a good deal of truth in the popular notion that economists are in disagreement on most economic questions. If the consensus of a dozen prominent economists is to be obtained (except on questions on which there is a consensus in public opinion generally) it must usually be done either by hand-picking the economists, or by leaving the document either silent or ambiguous on the tough points in the discussion.

2. The extent of disagreement is exaggerated in the public mind and in the minds of economists themselves by the fact that we prefer to talk about matters of disagreement rather than matters that we all take for granted.

3. There is much more disagreement on the reasons for favoring or opposing a given measure than there is on the conclusions.

4. There are a few very deep cleavages which give rise to genuine differences on a great variety of questions. These include differences on such subjects as:

a) the significance of public debt;

b) the choice between automatic and discretionary controls (such as the

gold standard vs. managed currency, detailed legislation vs. broad legislation with administrative discretion; market price vs. centralized planning as a determinant of economic activity);

c) attitudes toward special group interests (labor, agriculture, regional interests);

d) attitudes toward monopoly, including collective bargaining;

e) certain fundamental questions centering around the formation of income, such as the question whether and to what extent income depends on expenditure or expenditure on income;

f) protective tariffs. (Thirty years ago the economists were nearly solid against the tariff and the public was divided. Now the public is solid in support of it and the economists are divided—partly because of the new slant which the Keynesian analysis gives to the employment side of the argument, and partly because of the rise of a school of economists who are against free trade, not because they like protection of vested interests but because they like freedom less.)

5. Economists, like other people, are governed by their emotions more than by their intellects in matters outside their special spheres of expert knowledge. Since economists are almost as free as other people to express opinions on matters concerning which they have made no study, their utterances on economic topics outside their special spheres reflect the same sort of differences as do other people's utterances.

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Supplement.—Forty-second Annual Meeting:

Papers and Proceedings. Economic History; Public Works Plan and Unemployment; Theory of Economic Dynamics as Related to Industrial Instability; Chief Economic Problems of Mexico; Reparations Settlement and the International Flow of Capital; Federal Reserve Board—Its Problems and Policy; Economic and Social Consequences of Mechanization in Agriculture and Industry. Pp. 214. 1.25

Volume XXI, 1931

The American Economic Review, March, June, September, and December; each, 1.25

Supplement.—Forty-third Annual Meeting:

Papers and Proceedings. Decline of Laissez Faire; Small Loan Business; Social and Economic Aspects of Chain Stores; Russian Economic Situation; Trustification and Economic Theory; Persistence of the Merger Movement; Program of the Federal Farm Board; Social Implications of Restriction of Agricultural Output; Land Economics and Real Estate; Institutionalism—What It Is and What It Hopes to Become; An Approach to World Economics; International Industrial Relations—Migration of Enterprise and Policies Affecting It; World-Wide Depression of 1930; Present Depression—A Tentative Diagnosis; Power and Propaganda; Failure of Electric Light and Power Regulation and Some Proposed Remedies. Pp. 302. $1.25

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Volume XXII, 1932

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Supplement.—Forty-fourth Annual Meeting:

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Volume XXIII, 1933

The American Economic Review, March, June, September, and December; each, 1.25

Supplement.—Forty-fifth Annual Meeting:

Papers and Proceedings. Rise of Monopoly in the United States; Record of Insurance in the Depression; Some Theoretical Aspects of Unemployment Reserves; The Economics of Unemployment Relief; American Economic Thought; Formation of Capital: Measurement and Relation to Economic Instability; Size of Business Unit as a Factor in Efficiency of Marketing; Reserve Bank Policy and Economic Planning; Federal Reserve Policy in World Monetary Chaos; Tariff Reform: The Case for Bargaining; Speculation in Suburban Lands; Real Estate Speculation and the Depression. Pp. 206. 1.25

Supplement No. 2.—Handbook of the Association, 1933. 2.00

Volume XXIV, 1934

The American Economic Review, **March, June, September, and December; each, 1.25

** Supplement.—Forty-sixth Annual Meeting:

Papers and Proceedings. The History of Recovery; Public Utilities in the Depression; Imperfect Competition; Fundamentals of a National Transportation Policy; Correlation of Rail and Highway Transportation; Marketing under Recovery Legislation; Economics of the Recovery Act; Measurement of Unemployment; Controlled Inflation; Banking Act of 1933—An Appraisal; Some Statistics on the Gold Situation; The Problem of Tax Delinquency; The Problem of Expanding Governmental Activities; The Economics of Public Works. Pp. 224. 1.25

Volume XXV, 1935

The American Economic Review, March, June, September, and December; each, 1.25

Supplement.—Forty-seventh Annual Meeting:

Papers and Proceedings. NRA Examined; Rate-making Problems of TVA; New Deal and the Teaching of Economics; Paths of Economic Change; Business Enterprise and the Organization of Production; Changes in the Character, Structure, and Conditions of Production; International Aspects of Problems of Production and Trade; International Movements of Capital; Our Commercial Banking System; Aspects of Co-ordination and Finance; Some Lessons Drawn from European Experience; Nationalism; Security Regulation and Speculation; Monetary Stabilization from an International

Point of View; Monetary Stabilization from a National Point of View; Decentralization of Population and Industry; Co-ordination of State and Local Finance; Relief Aspects of the New Deal; Unified Program for the Unemployed. Pp. 240. $1.25

Volume XXVI, 1936

The American Economic Review, March, June, September, and December; each, 1.25

Supplement.—Forty-eighth Annual Meeting:

Papers and Proceedings. Some Distinguishing Characteristics of the Current Recovery; Price Theories and Market Realities; Notes on Inflexible Prices; Effect of the Depression upon Earnings and Prices of Regulated and Non-regulated Industries; Size of Plants in Its Relation to Price Control and Price Flexibility; Requisites of Free Competition; Monopolistic Competition and Public Policy; Banking Act of 1935; Recent Legislation and the Banking Situation; Economic Aspects of an Integrated Social Security Program; Capital Formation; Trade Agreements Program and American Agriculture; Founding and Early History of the American Economic Association; Developments in Economic Theory; Federal Revenue Act of 1935; Relations between Federal, State, and Local Finances; Equalization of Local Government Resources; Adjustment to Instability; Transportation Problems; Fifty Years' Developments in Ideas of Human Nature and a Motivation; Institutional Economics; Place of Marginal Economics in a Collectivist System; Problem of Prices and Valuation in the Soviet System; Effects of New Deal Legislation on Industrial Relations; Report of the Fiftieth Anniversary Dinner. Pp. 350. 1.25

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Volume XXVII, 1937

The American Economic Review, March, June, September, and December; each, 1.25

Supplement.—Forty-ninth Annual Meeting:

Papers and Proceedings. Economic Interdependence, Present and Future; Quantitative and Qualitative Changes in International Trade During the Depression; Current Tendencies in Commercial Policy; Trade Problem of the Pacific; Analysis of the Nature of American Public Debts; Limits to Possible Debt Burdens, Federal, State, and Local; Debt Retirement and the Budget; United States Debt—Distribution among Holders and Present Status; Federal-State Unemployment Compensation Provisions of the Social Security Act; Unemployment Relief and Insurance; Economic Problems Arising from Social Security Taxes and Reserves; The Situation of Gold Today in Relation to World Currencies; Mechanisms and Objectives for the Control of Exchange; The Adequacy of Existing Currency Mechanisms Under Varying Circumstances; Present Situation of Inadequate Housing; Financing of Housing; Some Economic Implications of Modern Housing; Managed Currency; A Critique of Federal Personnel Policies as Applied to Professional Social Science Positions; New Opportunities for Economists and Statisticians in Federal Employment; Government Employment as a Professional Career in Economics; Indicia of Recovery; Housing and Housing Research; Distribution of Purchasing Power and Business Fluctuations; Forecast of Power Development; The Possibility of a Scientific Electrical Rate System; Co-ordination of Public and Private Power Interests in European Countries; Recent Developments in the Theory of Speculation; Control of Speculation under the Securities Exchange Act; Unorganized Speculation: the Possibility of Control. Pp. 333. 1.25

Volume XXVIII, 1938

The American Economic Review, March, June, September, and December; each, 1.25

Supplement.—Fiftieth Annual Meeting:

Papers and Proceedings. The Significance of Marxian Economics for Present-day Economic Theory; The Significance of Marxian Economics for Current Trends of Governmental Policy; The Rate of Interest; Security Markets and the Investment Process; Relation of Price Policy to Fluctuations of Investment; General Interest Theory; Rate of Interest; Security Regulation; Corporate Price Policies; Fiscal Policies; Rate of Consumption; Wage Rates; Social Security Program; Rate of Consumption; Durable Consumers Goods; Wage Policies. Pp. 192. 1.25

Supplement No. 2.—Handbook of the Association, 1938. 2.50

Volume XXIX, 1939

The American Economic Review, **March, **June, September, and December; each, $1.25

Supplement.—Fifty-first Annual Meeting:

Papers and Proceedings. Problem of Industrial Growth in a Mature Economy; Effects of Current and Prospective Technological Developments upon Capital Formation; Public Investment in the United States; Expansion and Contraction in the American Economy; Effect of Industrial and Technological Developments upon Demand for Capital; Role of Public Investment and Consumer Capital Formation; Income and Capital Formation; Price and Production Policies of Large-Scale Enterprise; Changing Distribution Channels; Financial Control of Large-Scale Enterprise; Pure Theory of Production; Changing Character of American Industrial Relations; Wages and Hours in Relation to Innovations and Capital Formation; Effect of Wage Increase upon Employment; Relation of Wage Policies and Price Policies; An Appraisal of Factors Which Stopped Short the Recovery Development in the United States; Fiscal Policy in the Business Cycle; An Appraisal of the Workability of Compensatory Devices; Divergencies in the Development of Recovery in Various Countries; Factors Making for Change in Character of Business Cycle; Industrial Relations. Pp. 280. 1.25

Volume XXX, 1940

The American Economic Review, March, June, September, and December; each, 1.25

** Supplement.—Fifty-second Annual Meeting:

Papers and Proceedings. Objectives of Monetary Policy; Economic Issues in Social Security Policy; Bank Deposits and the Business Cycle; Problems in the Teaching of Economics; Price Control Under "Fair Trade" Legislation; Problems of American Commercial Policy; Transportation Problem; Preserving Competition Versus Regulating Monopoly; Theory of International Trade; Collective Bargaining and Job Security; Banking Reform Through Supervisory Standards; Incidence of Taxation; Economic Planning; Growth of Rigidity in Business; Economics of War; Population Problems; Cost Functions and Their Relation to Imperfect Competition. Pp. 436. 1.25

Supplement No. 2.—Handbook of the Association, 1940. 2.00

No. 5 (February, 1941)

Fifty-third Annual Meeting (December, 1940):

Papers and Proceedings. Gold and the Monetary System; Economic Research; Federal Budget; Economic Consequences of Deficit Financing; Teaching of Economics; Agricultural Situation; A Review of Fundamental Factors, an Evaluation of Public Measures, and an Appraisal of Prospects; Status and Role of Private Investment in the American Economy, 1940; Unemployment in the United States, 1930-50; Economic Consequences of War Since 1790; Some Economic Problems of War, Defense, and Postwar Reconstruction; United States in the World Economy, 1940; International Economic Relations and Problems of Commercial Policy; Price Policy and Price Behavior. Pp. 458. 1.25

Volume XXXI, 1941

The American Economic Review, March, June, September, and **December; each, 1.25

Volume XXXII, 1942

The American Economic Review, March, **June, **September, and **December; each, 1.25

Supplement.—Fifty-fourth Annual Meeting:

Papers and Proceedings. Economic Adjustments After Wars; Problems of Taxation; Determinants of Investment Decisions; Problems of International Economic Policy for the United States; History of American Corporations; Problems of Labor Market Research; Co-ordination of Federal, State, and Local Fiscal Policy; Technical Aspects of Applying a Dismissal Wage to Defense Workers; Problems of International Economic Policy; Impact of National Defense and the War upon Public Utilities; Future of Interest Rates; Effect of Managerial Policy upon the Structure of American Business; Economic Effects of Wars; Economic Aspects of Reorganization Under the Chandler Act; Economics of Industrial Research; Objectives in Applied Land Economics Curricula; Changing Position of the Banking System and Its Implications for Monetary Policy; Determination of Wages; Economic

Problems of American Cities; Cost and Demand Functions of the Individual Firm; Problems of Price Control; Effects of the War and Defense Program upon Economic Conditions and Institutions; Trade Unions and the Law. Pp. 534. $1.25

Supplement No. 2.—Papers Relating to the Temporary National Economic Committee. Pp. 135. .50

Supplement No. 3.—Directory. Pp. 198. 3.00

Volume XXXIII, 1943

The American Economic Review, **March, June, September, and December; each, 1.25

**Supplement.—Fifty-fifth Annual Meeting:

Papers and Proceedings. Economic Claims of Government and of Private Enterprise; Our Industrial Plant When Peace Comes; Financial and Government Contract Adjustments of Industry at the End of the War; Problems of Public Policy Raised by Collective Bargaining; Our Labor Force When Peace Comes; Price Control and Rationing; Case Studies in Price Control; Restoration of International Trade; Future of International Investment; International Financial Relations After the War; Economic Regionalism and Multilateral Trade; Bases of International Economic Relations; International Commodity Agreements. Pp. 508 + 15. 1.25

Volume XXXIV, 1944

The American Economic Review, March, June, September, and December; each, 1.25

** Supplement.—Fifty-sixth Annual Meeting:

Papers and Proceedings. Political Science, Political Economy, and Values; Educational Function of Economists and Political Scientists; Public Administration of Transportation under War Conditions; How Achieve Full and Stable Employment; Incentive Problems in Regulated Capitalism; Postwar Labor Problems; Social Security; Postwar Legal and Economic Position of American Women; Postwar Domestic Monetary Problems; Economic Organization of Welfare; International Trade; Regional Problems; International Monetary Problems. Pp. 440 + 16. 1.25

Supplement No. 2.—Implemental Aspects of Public Finance. Pp. 138. 1.00

Volume XXXV, 1945

The American Economic Review, March, June, September, and December; each, 1.25

Supplement (May).—Fifty-seventh Annual Meeting:

Papers and Proceedings. Consumption Economics; Expanding Civilian Production and Employment After the War; Natural Resources and International Policy; Interdepartmental Courses in the Social Sciences; Price Control and Rationing in the War-Peace Transition; Organized Labor and the Public Interest; Aviation in the Postwar World; International Monetary and Credit Arrangements; Agricultural Price Supports and Their Consequences; Political Economy of International Cartels; Fiscal Problems of Transition and Peace; Problems of Regionalism in the United States; Food and Agriculture—Outlook and Policy; Function of Government in the Postwar American Economy. Pp. 520 + 16. 1.25

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